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Business this week

Jul 26th 2001
From The Economist print edition

America's mixed fortunes

Ailing **Lucent Technologies**, a telecom-equipment maker, showed no sign of recovery. It announced losses for the latest quarter of $1.9 billion and job cuts of up to 20,000, reducing by half its workforce since the beginning of the year. Lucent also sold most its cable business to Furukawa, a Japanese rival, for $2.8 billion.

See article: Beyond the valley

DuPont, America's biggest chemicals company, made a loss of $213m in the latest quarter compared with profits of $688m a year earlier. The company announced that another 1,000 jobs would go, on top of 4,500 cuts already planned—making in all 6% of the total workforce.

The costs of restructuring and a failed merger with General Electric hit **Honeywell**. Profits at the American engineering company crashed by 90% in the latest quarter compared with last year.

The **OPEC oil cartel** agreed to cut oil production by 1m barrels a day, starting on September 1st. The surprise move came amid signs of weak oil demand, rising stocks and global economic slowdown.

See article: Trouble ahead

America's oil companies prospered as high prices offset the effects of a slowing economy. **ExxonMobil**, America's biggest oil company, made record profits in the latest quarter of $4.4 billion. **Chevron**, the second-biggest, made profits of $1.3 billion in the same period. Texaco, Unocal and Amerada Hess all announced profits that well exceeded analysts' forecasts.

Walt Disney strengthened its television interests with the purchase of **Fox Family Worldwide**, a children's cable-TV outfit, from its joint owners, **News Corp** and Haim Saban, the company's CEO, for $3 billion.

High-tech worries

ABB, Europe's biggest electrical-engineering firm, said that it would lay off up to 8% of its workforce, some 12,000 employees, over the next 18 months. Profits (before interest and tax) fell by 21% in the first half of 2001, compared with a year ago; the company's shares slumped.

Invensys, a British engineering group, suffered similarly. It said that operating profit would be far below expectations and that it would cut 2,500 jobs on top of 3,500 job losses already announced. Allen Yurko, Invensys's chief executive, resigned.

Infineon, Europe's second-largest chip maker, recorded losses of *euro*371m ($324m) in the latest quarter. The German company has been hit hard by the collapsing price of memory chips, which account for around 80% of its revenues. It said that 5,000 jobs would go.

Siemens, a European technology giant, was hit by heavy losses in the latest quarter, driven by the poor performance of its telecoms businesses. The German firm said that it would speed up restructuring of its telecoms operation, which could involve further job losses on top of the 8,000 that have gone so far this

year.

See article: Waving or drowning?

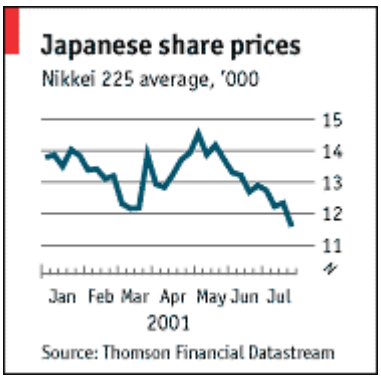
Compaq reported a $279m loss in the second quarter, after a profit of $388m last year. The PC maker is shedding staff and writing off assets. **Xerox**, another troubled American technology company, joined Compaq in issuing a profit warning.

The ambitious scale of European **third-generation mobile-phone networks** looked likely to be cut back after British Telecom's suggestion that five operators share two networks in the Netherlands met with broad agreement. BT had proposed one network which roused the Dutch government to insist on at least two.

Allianz Group decided to hold on to Dresdner Kleinwort Wasserstein, an investment bank acquired through a takeover of Dresdner Bank. The giant German insurer had been expected to float DKW.

Gloom and doom

Japan's stockmarketsrecovered slightly after the Nikkei 225 stockmarket average had hit a 16-year low. Japan's prime minister, Junichiro Koizumi, insisted that his government would not act to prop up markets and that he would press forward with his structural economic reforms.



See article: Japan's stockmarkets

In **Argentina**, an austerity plan aimed at eliminating the fiscal deficit was approved by the lower house of Congress, but not immediately by the Senate, as the government had hoped. In **Brazil**, whose currency has been hard hit by worries about Argentina's debts, finance officials started talks with the IMF on a new agreement.

Electrical connections

Fiat and **Electricité de France** succeeded in their battle to take over Montedison. The big Italian energy company succumbed to an improved offer from Fiat and EDF of around *euro*6 billion ($5.3 billion), but the European Union's competition authorities, anxious to ensure a liberalised market in energy, may yet intervene.

Enel, Italy's biggest electricity company, is to sell **Elettrogen**, its generation business, to **Endesa**, Spain's leading utility, for *euro*2.6 billion ($2.3 billion). At the same time Enel has emerged as a bidder for Endesa's Viesgo generating unit. Endesa's bid to become a pan-European operation has run into competition concerns.

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Politics this week

Jul 26th 2001
From The Economist print edition

Indonesia's new leader

EPA

Indonesia's parliament voted to remove the country's president, Abdurrahman Wahid, and install his vice-president, Megawati Sukarnoputri. He said that his ousting was unconstitutional.

See article: Megawati takes charge

George Bush and Vladimir Putin agreed to work towards reducing their countries' **nuclear arms**, thus strengthening Mr Bush's plans for a missile-defence shield. He said he expects America to abrogate the Anti-Ballistic Missile treaty soon.

See article: The love that dare not speak its name

The Bush administration also said it considered the 1972 convention on **biological weapons** flawed beyond repair, though it has been ratified by 143 countries, including the United States. The Americans object to a draft plan to strengthen the treaty by giving foreign inspectors the right to check others' installations, believing it puts American companies at a disadvantage while still allowing miscreants to cheat.

See article: Stop the world, I want to get off

A compromise deal in Bonn among the world's industrialised countries salvaged a watered-down, and more flexible, version of the **Kyoto Protocol** on climate change. EU governments took the credit, but the United States's refusal to take part may yet doom the pact, even though it was outvoted 178-1.

See article: Kyoto rescued?

Police and protesters clashed bloodily at the **G8 summit** in Genoa, as anarchist thugs hijacked peaceful demonstrations. One rioter was shot dead, many non-violent protesters—and police—bloodied. Next year's summit will be held in a remote Rocky Mountain resort, said Canada, its organiser and host.

See article: Picking up the pieces

The state of Europe

Fighting burst out in **Macedonia** again between rebels and government forces—this time inside Tetovo, a mainly ethnic- Albanian city. In Skopje, angry Slavic Macedonians demonstrated against NATO's alleged over-eagerness for concessions to the rebels.

See article: Talking or fighting?

A committee of France's National Assembly voted to reveal details of President **Jacques Chirac**'s assets to judges investigating his use, before he was president, of secret funds.

Italy's grandest volcano, Etna, in Sicily, erupted. Its grandest journalist, Indro Montanelli, aged 92, died.

AP

In **Belarus**, the opposition united round a single candidate to challenge the incumbent autocrat, Alexander Lukashenka, in a presidential election in September. The challenger's chances: slim.

See article: Challenged, feebly

In **Britain**, a court opened hearings on a suit brought by London's mayor, Ken Livingstone, challenging government plans to part-privatise the crumbling underground railway system. The challenge's chances: one in ten?

See article: Who shall rule?

The **European Commission** published its ideas on how to make the EU more intelligible to its citizens. Some people understood them; few thought they would work.

See article: Heart attack? Here's an aspirin

Welcome guests

A committee led by Colin Powell, the United States' secretary of state, and John Ashcroft, its attorney-general, recommended that some of the **3m Mexicans** living illegally in the United States should be allowed to gain permanent residence through a guest-worker programme.

At a meeting in Italy, Pope John Paul urged George Bush to oppose scientific research on **human embryos**.

Mandela slows down

South Africa's 83-year-old former president, **Nelson Mandela**, has prostate cancer. It is not expected to shorten his life, but it will hamper his role as peacemaker in Burundi.

About 100 soldiers in **Burundi** tried to overthrow President Pierre Buyoya, who recently signed a new agreement with opposition parties. Later they gave themselves up.

Israel responded to the Genoa summit's call for **third-party monitoring** of the Israeli-Palestinian ceasefire by suggesting that it might be prepared to accept American monitors. Among the latest violations of the ceasefire was an Israeli missile attack that killed a Hamas political activist. The Islamist group vowed to take revenge.

See article: A step back from the precipice

For the first time a death notice in Kenya's *Daily Nation* carried pictures of red ribbons to symbolise that the deceased had died of **AIDS**.

Asian travels

As Colin Powell headed for **China**, the government there released an American national and two American residents whom it had found guilty of spying.

See article: Travelling hopefully

A court in **Japan** ordered the leader of the Aum Shinrikyo cult to pay more than $3m to victims of a gas attack in 1994 in Matsumoto.

The **Tamil Tigers** raided Colombo airport, blowing up half of the commercial fleet of Sri Lankan Airlines, at a cost of 18 lives.

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See article: The Tigers pounce

Phoolan Devi, India's "**Bandit Queen**" turned politician, was shot dead at her home in Delhi.

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The case for legalisation

Jul 26th 2001
From The Economist print edition

Time for a puff of sanity

Get article background

IT IS every parent's nightmare. A youngster slithers inexorably from a few puffs on a joint, to a snort of cocaine, to the needle and addiction. It was the flesh-creeping heart of “Traffic”, a film about the descent into heroin hell of a pretty young middle-class girl, and it is the terror that keeps drug laws in place. It explains why even those politicians who puffed at a joint or two in their youth hesitate to put the case for legalising drugs.

The terror is not irrational. For the first thing that must be said about legalising drugs, a cause *The Economist* has long advocated and returns to this week (see survey), is that it would lead to a rise in their use, and therefore to a rise in the number of people dependent on them. Some argue that drug laws have no impact, because drugs are widely available. Untrue: drugs are expensive—a kilo of heroin sells in America for as much as a new Rolls-Royce—partly because their price reflects the dangers involved in distributing and buying them. It is much harder and riskier to pick up a dose of cocaine than it is to buy a bottle of whisky. Remove such constraints, make drugs accessible and very much cheaper, and more people will experiment with them.

A rise in drug-taking will inevitably mean that more people will become dependent—inevitably, because drugs offer a pleasurable experience that people seek to repeat. In the case of most drugs, that dependency may be no more than a psychological craving and affect fewer than one in five users; in the case of heroin, it is physical and affects maybe one in three. Even a psychological craving can be debilitating. Addicted gamblers and drinkers bring misery to themselves and their families. In addition, drugs have lasting physical effects and some, taken incompetently, can kill. This is true both for some “hard” drugs and for some that people think of as “soft”: too much heroin can trigger a strong adverse reaction, but so can ecstasy. The same goes for gin or aspirin, of course: but many voters reasonably wonder whether it would be right to add to the list of harmful substances that are legally available.

Of Mill and morality

The case for doing so rests on two arguments: one of principle, one practical. The principles were set out, a century and a half ago, by John Stuart Mill, a British liberal philosopher, who urged that the state had no right to intervene to prevent individuals from doing something that harmed them, if no harm was thereby done to the rest of society. “Over himself, over his own body and mind, the individual is sovereign,” Mill famously proclaimed. This is a view that *The Economist* has always espoused, and one to which most democratic governments adhere, up to a point. They allow the individual to undertake all manner of dangerous activities unchallenged, from mountaineering to smoking to riding bicycles through city streets. Such pursuits alarm insurance companies and mothers, but are rightly tolerated by the state.

True, Mill argued that some social groups, especially children, required extra protection. And some argue that drug-takers are also a special class: once addicted, they can no longer make rational choices about whether to continue to harm themselves. Yet not only are dependent users a minority of all users; in addition, society has rejected this argument in the case of alcohol—and of nicotine (whose addictive power is greater than that of heroin). The important thing here is for governments to spend adequately on health education.

Over himself, over his own body and mind, the individual is sovereign

The practical case for a liberal approach rests on the harms that spring from drug bans, and the benefits that would accompany legalisation. At present, the harms fall disproportionately on poor countries and on poor people in rich countries. In producer and entrepot countries, the drugs trade finances powerful gangs who threaten the state and corrupt political institutions. Colombia is the most egregious example, but Mexico too wrestles with the threat to the police and political honesty. The attempt to kill illicit crops poisons land and people. Drug money helps to prop up vile regimes in Myanmar and Afghanistan. And drug production encourages local drug-taking, which (in the case of heroin) gives a helping hand to the spread of HIV/AIDS.

In the rich world, it is the poor who are most likely to become involved in the drugs trade (the risks may be high, but drug-dealers tend to be equal-opportunity employers), and therefore end up in jail. Nowhere is this more shamefully true than in the United States, where roughly one in four prisoners is locked up for a (mainly non-violent) drugs offence. America's imprisonment rate for drugs offences now exceeds that for all crimes in most West European countries. Moreover, although whites take drugs almost as freely as blacks and Hispanics, a vastly disproportionate number of those arrested, sentenced and imprisoned are non-white. Drugs policy in the United States is thus breeding a generation of men and women from disadvantaged backgrounds whose main training for life has been in the violence of prison.

Legalise to regulate

Removing these harms would bring with it another benefit. Precisely because the drugs market is illegal, it cannot be regulated. Laws cannot discriminate between availability to children and adults. Governments cannot insist on minimum quality standards for cocaine; or warn asthma sufferers to avoid ecstasy; or demand that distributors take responsibility for the way their products are sold. With alcohol and tobacco, such restrictions are possible; with drugs, not. This increases the dangers to users, and especially to young or incompetent users. Illegality also puts a premium on selling strength: if each purchase is risky, then it makes sense to buy drugs in concentrated form. In the same way, Prohibition in the United States in the 1920s led to a fall in beer consumption but a rise in the drinking of hard liquor.

It took years of education for gin to cease to be a social threat

How, if governments accepted the case for legalisation, to get from here to there? When, in the 18th century, a powerful new intoxicant became available, the impact was disastrous: it took years of education for gin to cease to be a social threat. That is a strong reason to proceed gradually: it will take time for conventions governing sensible drug-taking to develop. Meanwhile, a century of illegality has deprived governments of much information that good policy requires. Impartial academic research is difficult. As a result, nobody knows how demand may respond to lower prices, and understanding of the physical effects of most drugs is hazy.

And how, if drugs were legal, might they be distributed? The thought of heroin on supermarket shelves understandably adds to the terror of the prospect. Just as legal drugs are available through different channels—caffeine from any cafe, alcohol only with proof of age, Prozac only on prescription—so the drugs that are now illegal might one day be distributed in different ways, based on knowledge about their potential for harm. Moreover, different countries should experiment with different solutions: at present, many are bound by a United Nations convention that hampers even the most modest moves towards liberalisation, and that clearly needs amendment.

To legalise will not be easy. Drug-taking entails risks, and societies are increasingly risk-averse. But the role of government should be to prevent the most chaotic drug-users from harming others—by robbing or by driving while drugged, for instance—and to regulate drug markets to ensure minimum quality and safe distribution. The first task is hard if law enforcers are preoccupied with stopping all drug use; the second, impossible as long as drugs are illegal. A legal market is the best guarantee that drug-taking will be no more dangerous than drinking alcohol or smoking tobacco. And, just as countries rightly tolerate those two vices, so they should tolerate those who sell and take drugs.

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Climate change

Kyoto rescued?

Jul 26th 2001
From The Economist print edition

Negotiators say they saved the Kyoto pact this week in Bonn. They didn't really

Get article background

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TO JUDGE by the euphoric proclamations and the breathless headlines this week, it seems that the Kyoto Protocol is back from the dead. George Bush, the Toxic Texan, had all but killed the treaty by declaring it “fatally flawed”. So when world environment ministers descended on Bonn to try to salvage the pact, its prospects appeared bleak. Yet somehow these heroes screwed their courage to the sticking place and refused to fail. They bargained and worked into the wee hours—all to save the endangered planet. Jan Pronk, the Dutchman who presided over the meeting, at one point locked negotiators in until they reached a compromise (see article).

Gripping stuff. And the result? In the words of Margot Wallstrom, Sweden's environment minister, “We have rescued the Kyoto Protocol...we can go home, look our children in the eye and feel proud of what we have done.” In a rhetorical question directed at America, Olivier Deleuze, the EU's chief negotiator, added sneeringly, “Does this protocol look fatally flawed?”

Yes, actually, it still does—and only an idiot could fail to notice the flaw in question. The United States, the source of a quarter of the world's man-made output of greenhouse gases, is no nearer than it was before to accepting Kyoto. Its continuing hostility is partly justified and entirely understandable, notwithstanding the Europeans' record-breaking display of righteous indignation (and that was a record which took some beating). The Kyoto framework still fails to offer America anything approaching a sensible balance of cost and benefit. This does not mean that Bonn achieved nothing. Europe conceded a far more flexible interpretation of Kyoto than expected; and it scored a delicious public-relations goal against Mr Bush. But turn to hard-headed economics and you see what the price of that goal may be.

Consider how the Bonn agreement is likely to play out in America, Japan and Europe. Bonn has not changed America's position one jot. Mr Bush was wrong to junk Kyoto without offering alternatives, but America's lack of participation remains decisive. Climate change, as a problem that knows no political borders, demands a global solution. Bonn leaves out the world's biggest emitter.

What about Japan? Europe needs Japan to ratify the pact for it to come into legal force. But even if the Japanese do ratify it—which cannot be taken for granted—this may prove a mere figleaf that does nothing to improve the treaty or the planet's health. Economic arguments again explain why: the combination of a long Japanese recession and the concessions made by the EU to win Japan's vote (such as an exceedingly liberal definition of carbon “sinks”) has made the country's emissions target almost meaningless.

Eurobluster

In the end, the rump Kyoto pact may fail most spectacularly just where this week's deal was struck and celebrated: in Europe. Once again, the reason is economics. The Bonn deal is more flexible than what was proposed before; and the absence of the United States will also reduce the demand for (and so the price of) emissions credits. Yet the pact will impose costs on Europe's industries that will not be faced by their American (and maybe Japanese) rivals. Will they tolerate this?

Not if two recent cases are any guide. The heart of the European strategy for achieving its Kyoto targets is a pan-EU plan for emissions trading. After two years of intensive study, the European Commission was earlier this month about to issue a draft directive on the mandatory “cap-and-trade” scheme. Yet, on the eve of Bonn, it decided to postpone. What happened? Many European businesses, including even BP (which spares no effort to cultivate a green image), were suddenly complaining that it would impose unfair costs on them.

Another sign of trouble surfaced even before the ink had dried in Bonn. On July 25th the European Commission made a big decision about the future role of coal, the filthiest and most carbon-intensive of fuels, in its energy supply. The EU's existing subsidies were scheduled to be phased out from July 2002. So what did these saviours of the planet do? They extended the subsidies for another decade.

Bonn saved the Kyoto pact—in name, for now. Big deal.

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Megawati takes charge

Jul 26th 2001
From The Economist print edition

Indonesia's ex-president did not live up to expectations. Will his successor do better?

AP

Get article background

IF FURTHER excuses were needed for Indonesia's parliament to remove Abdurrahman Wahid from the presidency and put Megawati Sukarnoputri in his place, he supplied them in his last 24 hours in power, and in spades. He tried to declare a state of emergency, when the only real danger was to his own position. He tried to suspend parliament, and to dissolve an opposing political party, neither of which is the president constitutionally authorised to do. He even called for a *jihad*, a holy war—an action so reckless in a country with Indonesia's propensity for mayhem as to verge on the treasonable. It was only thanks to the good sense of the army, which declined to close down parliament as he had directed, and of the new leaders of the religious movement he used to lead, that chaos and bloodshed were averted. To cap it all, Mr Wahid then appeared in public in his shorts, waving to his supporters as if nothing had happened, until aides led him off.

It is disconcerting to note that the world's fourth most populous country—and one of its least stable—now has, in Miss Megawati, its fourth president in a little over three years. Moreover, she is not someone who inspires much confidence, at least on the basis of her record. But there is also much to be thankful for. The most important feature of Mr Wahid's removal is that it was carried out by the book, with a degree of dignity and a striking absence of the bloodshed that had been predicted by many, notably the ex-president himself.

The contrast with the Philippines, the other South-East Asian country this year to see its president prematurely replaced by the daughter of one of his predecessors, is striking. In the Philippines, the political system obviously failed: the impeachment proceedings were disgracefully subverted by Joseph Estrada, the man being impeached, prompting a popular uprising that supplanted him in favour of his deputy. Gloria Macapagal Arroyo took over the presidency in constitutional circumstances that do not stand up well to scrutiny.

What's done was well done

Mr Wahid firmly believes that his removal was equally unconstitutional, but the facts do not bear him out. It is true that Indonesia's notoriously vague constitution does not explicitly confer on the People's Consultative Assembly (MPR) the right to remove a president. But it does confer the right to appoint him, and it also plainly states that “it is the MPR that holds the highest power of the state” and “the president who is appointed by the MPR shall be subordinate and accountable to the MPR.” The convoluted impeachment procedures, which to Indonesia's credit were scrupulously followed, date back to 1978 and have never before been challenged.

What Mr Wahid failed to appreciate was that, despite his sonorous titles of president and head of state, Indonesia's system was designed not as a true presidential arrangement but as something much closer to a parliamentary one. Its framers deliberately chose not to provide for a clear separation of powers, merely for a delegation of them from MPR to chief executive. Mr Wahid's overthrow should be seen as nothing more sinister than a vote of no confidence in a near-blind, ailing and, above all, increasingly incompetent prime minister.

Whether or not the country will now be better run is quite another matter. Miss Megawati will face

exactly the same pressures from her political rivals—the former Suhartoist Golkar party led by Akbar Tandjung, and the Muslim party led by the extraordinarily ambitious Amien Rais, both of whom conspired to deny her the presidency in 1999—as did for Mr Wahid. At some point, Indonesia will surely have to reform its constitution, moving definitively towards a directly elected presidential system, or alternatively to a true Westminster-style parliamentary one. Should it choose the parliamentary option, though, Indonesia's politicians will have to learn to demonstrate greater maturity than they have until now: they have been single-minded and efficient about bringing down Mr Wahid, but about not much else. Another presidency constantly destabilised by schemers, as Mr Wahid's was, would be devastating for a country as fragile as Indonesia.

But so much remains to do

Mr Wahid was backed by one of the smallest parties in parliament. Miss Megawati has at least the comfort of being backed by the largest—though she is well short of the majority she needs to block any attempts to start a movement for her own removal. And though there are legitimate worries about her grasp of statecraft, she is putting together a competent team and may at least have the common sense, which became increasingly lacking in the unwell and erratic ex-president, to allow it to get on with things. Mr Wahid, engaging and at heart reformist though he is, is not a hard act to follow. The markets, which sent the rupiah up 10% on the news of his political demise, certainly think so. Yet none of this is to deny that Miss Megawati now faces a daunting list of difficulties, from separatism to economic stagnation (see article).

One large uncertainty that remains after Mr Wahid's departure is the influence of the army. Having at first done his best to squeeze the military men out of politics, it was a sorry fact that in his last months Mr Wahid tried to bring the soldiers back into it, with frequent discussion of the imposition of martial law. That the commanders refused to be tempted reflects in part a genuine recognition that during the Suharto years they were used. But there is also, surely, a less high-minded calculation at work. Miss Megawati, with her talk of nationalism and her hostility to Mr Wahid's efforts at decentralisation, is likely to pursue policies that are far more congenial to the soldiers than did her predecessor.

For all his lapses towards the end, Mr Wahid at least started out sounding like a democrat. As well as trying to rein in the armed forces, sacking their commander when he was implicated in the brutality in East Timor, he freed the press and talked sensibly, if not to much effect, about reconciliation in the secessionist provinces of Aceh and Irian Jaya. Miss Megawati's rule, though it seems likely to be more consistent than Mr Wahid's, must avoid being more authoritarian.

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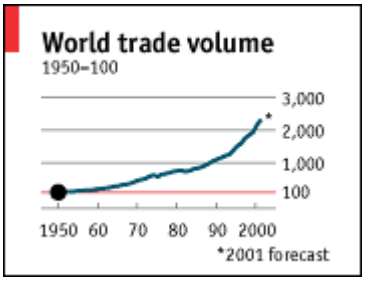
Trade

Why Doha matters

Jul 26th 2001
From The Economist print edition

A new trade round would work wonders for the world economy—yet it may not happen



AFTER the violence in Genoa, Britain's prime minister, Tony Blair, deplored the idea that there should be no more economic summits. If that were the result, he choked, democracy would have capitulated to the mob. A worthy sentiment. It would be better applied to a meeting which is not chiefly a festival of self-congratulation and, as in Genoa's particular case, a public-relations disaster. Stand up for a negotiation that may actually serve the public good. As it happens, one such gathering is planned. We urge Mr Blair and other leaders to put the full force of their posturing behind it.

At a meeting in November in Doha, the capital of Qatar, a new round of talks on global trade may or may not be launched. If it is global welfare you care about, especially the welfare of the poor, international meetings come no more important than this. The coalition of anti-globalists (notwithstanding the logistical difficulties, given the location) would love to stop it. And so would many of the corporate and political interests whose views carry weight with governments in rich and poor countries alike. Rising above the protests and the interests is going to be an enormous challenge.

A handful of the protesters who want to stop a new trade round are thugs. Most are simply misguided, as are the very many more people who feel the marchers “have a point”. Open markets are not the only thing that the poor countries need if they are to grow faster, but there is no doubt that without trade and foreign capital their prospects are worse. And unlike the other things poor countries need—clean and competent government, law and order, and all the other institutions that make capitalism work—open markets are easy to create. There is no excuse for not having them.

That will not stop a thousand excuses being offered between here and Doha. Governments have yet to agree, even in the broadest terms, on what the agenda should be (see article). The governments of the United States, the European Union, the developing countries and a number of ad hoc groupings all have their own particular goals to advance, their own special grievances to press, and their own importunate lobbies to stroke. It was ever thus. The point of multilateral negotiations such as the Uruguay round and its predecessors is that the scope of the talks is so wide that deals can be struck which allow every government to score political points. The alternative path of regional and bilateral preferences offers far less scope, and, as is now becoming clear, complicates the task of moving on to genuinely liberal trade later.

To go into talks at Doha and see them collapse as they did in Seattle in 1999 might be worse than having no meeting at all. That is why, without further delay, governments must settle on a workable agenda for Doha. Let the protesters march and the special interests plead. By November governments must make sure that they can launch a new round.

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About sponsorship

Israel and the Palestinians

A step back from the precipice

Jul 26th 2001
From The Economist print edition

An outside force is needed to monitor the Israeli-Palestinian ceasefire

SOMETIMES the Israelis and Palestinians are best left alone to try to sort out their tragic consanguinity. Not now. The present, almost total, absence of trust between the Israeli government and the Palestinian Authority (PA), and indeed between the two peoples themselves, leaves them suspended on the edge of catastrophe, with neither engine nor map to lead them back to safety. They need help.

Recognising the danger, the United States, which under George Bush has been inclined to leave decision-taking to Israel, last weekend joined the other G8 countries in calling on Israel and the PA to accept the presence of foreign monitors. “We cannot stand by while the situation deteriorates,” declared the G8. “There is need for immediate action.” Stoutly said. The question is whether this robustness will now be pursued or whether it will turn feeble when faced by Israel's determination to control events in the occupied territories.

However, perhaps startled by America's readiness to join in, and indeed by the G8 countries finding time to turn their attention to Palestine, Israeli determination is sounding less unyielding than usual. The Palestinians, vulnerable on many scores, have long been pleading for a mixed force of international observers to report on events on the ground. Despite their small triumph at the Genoa summit, they are unlikely to get one. Israel's tiny counter-bid has been to suggest an increase in the CIA presence at the “security” talks that are occasionally held. But now, defying the baying of the far right, orchestrated by a shameless ex-prime minister, Binyamin Netanyahu, the current prime minister, Ariel Sharon, is sounding as if he might eventually be prepared to accept a slightly larger American presence with a slightly wider mandate.

That should not be allowed to be Israel's last word: the world leaders, having issued their warning, ought to press for a force that is not exclusively American, and is empowered to monitor the ceasefire comprehensively. The United States itself, unwilling to be drawn too tightly into the Middle East's coils, would do better to venture in with fair-minded partners. But so long as the force is clearly objective, and can be assembled and put in place swiftly so that it can start making objective assessments, its exact make-up may not matter.

Outside monitoring of the tattered truce that precariously prevails is important because of Mr Sharon's ruling that political talks cannot resume until all violence ceases. This condition, not unreasonable in itself, is skewed because Israel has appointed itself sole judge of what constitutes violent action. Some Palestinian acts, such as bombs and shooting at settlers, are plainly violent, and so judged. Others, such as Israel's policies of assassinating designated opponents, demolishing houses and destroying orchards, are not.

Away from war, not to peace

The monitors, if given a bold enough brief, could bring a bit of clarity to a murky scene. Their mandate will be all-important: God forbid that they should prove as useless as the little group of international monitors set up in savage, divided Hebron after the shooting spree by Baruch Goldstein in 1994. But even if they are given a decent mandate, with full support from participants and non-participants alike, their power to bring improvements should not be exaggerated. Although the G8 summiteers linked them

with the Mitchell report—the findings of a commission under ex-Senator George Mitchell that recently described a path back to political sanity—outside observers cannot realistically be mediators.

They could, however, help to draw the two sides back a step from the precipice. Apart from all else, their presence would be a considerable moral deterrent should the Israeli government, under provocation from militants on both sides, rethink the “self-restraint” that holds it back from reclaiming Palestinian-controlled land. Mr Sharon drove his way through an international force, albeit a feeble one, on his way to Beirut in 1982. It is a mistake he is unlikely to repeat.

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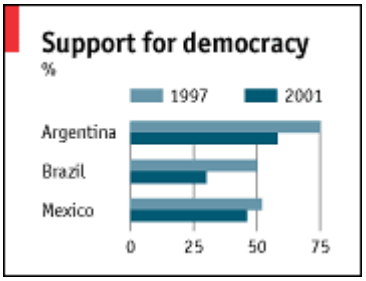
Latin America

The ardour cools

Jul 26th 2001
From The Economist print edition

Can democracy flourish amid economic woe?



DURING the 1980s, many Latin American countries threw off military dictatorships in favour of democracy. Not coincidentally, around the same time, their newly-installed political leaders embarked on free-market economic reforms, turning their backs on half a century of statist protectionism. Broadly speaking, these trends have held until today. But the maintenance of market democracy in Latin America has never been preordained. The outlook is testing.

First, the region's economies face yet another slowdown, even if the worries about Argentina's debts do not develop into a full-blown emerging-market panic. Argentina's austerity plan has gained only shaky political support and, in itself, will not end a three-year recession. The least costly outcome now looks like an orderly debt restructuring, which might mean higher borrowing costs for other countries. To make matters worse, this setback comes as South America is only just emerging from its latest recession, of 1998-99. This time Mexico, too, faces economic weakness, because of its close dependence on the slowing economy in the United States.

Even before these difficulties, in many countries the rewards of reform were disappointing. Inflation was conquered, but economic growth in the region as a whole averaged just 3% a year in the 1990s, barely up on the 2% of the 1980s—often called a “lost decade”. Poverty was reduced only slightly. In 1998 one Latin American in three was poor. Poverty and inequality in Latin America are not new, nor were they caused by the reforms. Where reforms did bring sustained high growth, as in Chile (from 1989 to 1997) and Mexico (between 1996 and 2000), poverty fell appreciably. But, sadly, such successes have been rare.

This record is affecting Latin America's political prospects. For the first time, support for democracy has suffered steep falls across the region, according to surveys by Latinobarometro, a polling organisation, whose latest findings we publish this week (see article).

That does not mean that military rule is on the way back. For a start, the United States no longer favours old-fashioned dictators in the region. In fact, the recent threats to democracy have mainly come from civilian autocrats, such as Alberto Fujimori, who was ousted in Peru last year after trying to prolong his rule, and Hugo Chavez, Venezuela's elected *caudillo*. So far, such strongmen have been exceptions. Will they remain so?

Democracy has tougher roots than is often appreciated. Most Latin Americans are disillusioned democrats—not, or not yet, authoritarians. And there are hopeful signs amid the gloom. Mexico became a full democracy last year, with the election of Vicente Fox. In Peru Alejandro Toledo's inauguration this weekend marks a fresh start for democracy after Mr Fujimori's regime.

Unmodernised politics

Building solid democracies on the foundations of inequality and underdevelopment was never going to be easy. The problems are socio-political as much as economic. Though elections are generally free, and civil liberties have improved, other institutions that should be democratically run, such as the judiciary and the police, are often unreformed.

Political parties, too, are weak and fragmented. Many governments lack dependable legislative

majorities. Partly as a result, politics is too often tainted by corrupt populist practices from the past. That makes it harder to reform the state. Cut pork-barrel projects and payrolls bloated by patronage, for example, and decent education and health care might become a universal right, not a favour for the few. And governments might have the money to help the poor when recessions strike.

In short, the task is to modernise politics, as well as economies. Efforts to reform campaign-finance laws and, in some countries, the electoral system, would help. But there are few quick fixes. In many countries, democracy still looks secure. The challenge is to keep it so.

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Letters

Jul 26th 2001
From The Economist print edition

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Climate of change

SIR – Climate change justifies a response more ambitious than the Kyoto agreement ("Life after Kyoto", July 21st). Scientists and economists of the United Nations Intergovernmental Panel on Climate Change describe an evolving catastrophe of unprecedented warming and rising sea-levels, extreme events and unpredictability that should have governments everywhere on a war footing.

You repeat the canard that the measures required in the short term will make the response needlessly expensive. In fact, there is a large resource of untapped "no regrets" measures that both reduce climate impact and are cost-effective. Numerous market failures prevent optimum investment in energy-efficient equipment. For example, the use of low-energy lighting, super-insulation and infra-red reflective glass in building design, and combined heat and power plants are all far below what would be justified on economic grounds. There is nothing to lose from an early and ambitious response to climate change.

Clive Bates
London

Flanders v Wallonia

SIR – In your article on Belgium's presidency of the European Union ("A worrying European paradox", July 7th), you correctly say that since the 1970s no Walloon has been prime minister of Belgium. This is of little importance. Since Belgium became a federal state political convention requires a Dutch speaker to be head of government because Flanders is the main region. In fact, the present prime minister, Guy Verhofstadt, is a figurehead put in place by the Walloon foreign minister, Louis Michel.

This is the first government since the socialist-liberal government of 1954-58 without a political majority in Flanders and certainly the government most detrimental to Flemish interests since long before the last war. For example, Mr Michel inveighs against Austria and Israel, both countries with good economic relations with Flanders, for so-called moral reasons. This has adverse effects on Flemish exports of textiles, sweets and optical lenses, as well as on tourism and the Antwerp diamond industry. Mr Michel had far fewer moral problems with sales by the Walloon weapons industry to underdeveloped countries.

André Monteyne
Brussels

SIR – The Flemings may have been the underdogs throughout the 19th century but that was 100 years and more ago. Since then they have successfully, from their point of view, established themselves as a nation (rather than Dutch-speaking Belgians), creating a linguistic border through the heart of Belgium in 1963 which has no roots in history. As with all nationalists, the Flemings reject "aliens" from society. Nationalist sentiment in Flanders has permeated the whole population and infected all its politicians. It is time for the EU to take notice.

Dominique de la Barre
Zolliuerberg, Switzerland

Centre court to UN court

SIR – Charlemagne (July 14th) on Goran Ivanisevic manages to be malicious, vindictive, inaccurate and is poorly written to boot. Mr Ivanisevic is just one of a few thousand confused “international brats ”. Do not judge Croatia by his actions. Carla Del Ponte is a stooge to political interests that bear more responsibility for the suffering of innocent civilians than any Croatian they are trying to haul in front of the UN court.

Dinko Mutak
Richmond, Virginia

Highly rated

SIR – You quote figures for Fitch's market share in the ratings business that are wildly inaccurate (“New interests, new conflicts”, April 14th). They would indicate that Fitch itself was about to become another statistic in one of its regular default studies; the reality is that the group is growing at record rates. Suffice it to say that in the first quarter of this year Fitch rated over 80% of debt issued by financial institutions in America and 65% of all unsecured corporate debt. We do not have precise figures for issuance outside the United States but we believe that the corresponding figures there are larger.

Robin Monro-Davies
CEO, Fitch
London

Houston's set fair

SIR – Audrey Cheng (Letters, July 7th) says that “Houston has little to offer unless you are a fan of country music, big hair or cowboy boots.” Perhaps she has not heard, but in the next five years Houston will add three new sports complexes, expand its convention centre at a cost of $143m, build a new centre for the performing arts, and the city hopes to host the Olympics in the future. These are just a few examples of “Houston's Renaissance”. She claims there is a “lack of smart young people and good educational institutions in Texas”. What about the University of Houston, Rice University, Trinity University, Texas A&M, the University of Texas, or Austin College?

Ben Albrecht
Houston

SIR – Houston lacks red tape in the allocation of assets which makes the standard of living in more crowded cities much lower. Corruption in Houston's housing market is unthinkable; supply always keeps up with demand. Rent-controlled flats in New York or Santa Monica are available only to those with connections, creating corruption in the housing market and a border tax on newcomers who must pay higher rents.

Houston also seems overly self-conscious about ugliness. However, as an architect who has practised in Los Angeles, New York and Houston, I can assure you that the quality of architecture in any American city is almost the same. They all suffer because buildings are constructed to last little more than a decade or two. Some of Houston's popular suburbs are a great deal more aesthetically pleasing than some parts of New Jersey, Queens, or the sprawling Valley of Los Angeles.

Houston may have almost no tourist assets and is not set up to present a pretty face to visitors. But many are surprised by Houston's secrets, only discovered if given a tour by a resident. Admittedly, no tourist will pay to fly to Houston just to relax but this is an asset for residents. Tourism can corrupt a city —a kind of dependence on strangers may ruin the basic humanity of living (for example,Venice, a mere shadow of its capitalist origins).

Little wonder that new businesses thrive in Houston: there is nothing better to do than work, live, make money, and raise a family.

Rich Farris
Houston

Pay attention

SIR – Long lifeists should take note of your obituary of George Dawson (July 14th) if they are looking for

clues to that secret, elusive elixir. It has nothing to do with diet, exercise, vitamins, crystals, chanting, etc. As Dawson said: “I had to ask people things and had to remember. I could never let my mind forget anything.” The trick is this: if you want to live for a long time, pay attention while you are here.

Ian Whittingham
Darien, Connecticut

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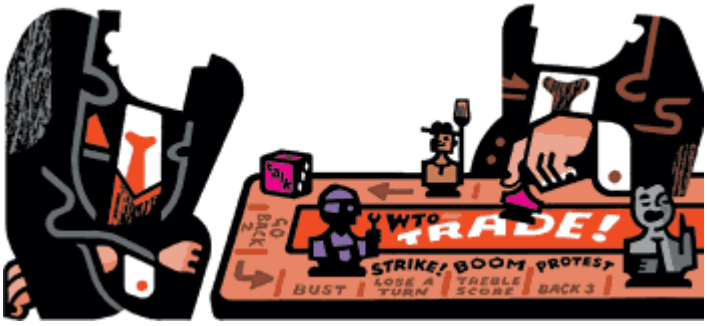
About sponsorship

World trade

Playing games with prosperity

Jul 26th 2001 | BRUSSELS, GENEVA AND WASHINGTON, DC
From The Economist print edition



The world desperately needs to launch a new trade round at Doha in November. It is having a struggle to get there

TO LAST week's protesters at the G8 summit in Genoa, whether peaceful banner-wavers or violent brick-throwers, the World Trade Organisation is the power-centre of a global capitalist conspiracy. Some power-centre; some conspiracy. The WTO's headquarters in Geneva is a nondescript concrete building, with large rolls of lurid orange carpet stacked just inside the visitors' entrance, and a courtyard overgrown with grass. It feels a bit like a quiet, slightly cash-strapped university in some mid-sized European city.

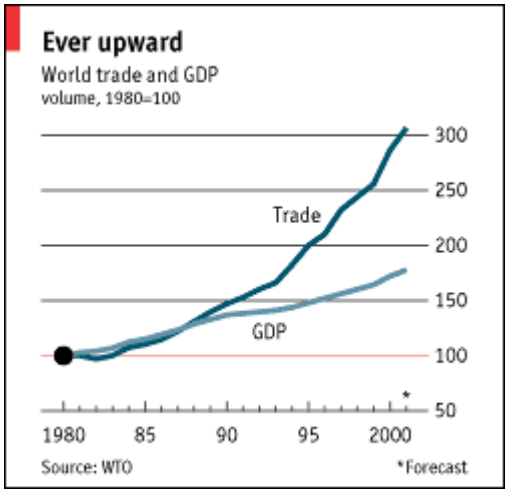
With a staff of 530 and a budget of $78m, about half what the World Bank spends on travel, the WTO is the poor relation among international organisations. But it is the centre of negotiations that could have a far bigger impact on global prosperity than any decision made in more imposing buildings. For it is largely through negotiations in Geneva that the WTO's 142 member countries are hammering out the terms of a new global trade round that will, with luck, be launched in Doha, the capital of Qatar, in November. By then, just to make things easier, China will probably be in the party too.

Over the past half-century, successive rounds of multilateral trade negotiations—including the Kennedy, Tokyo and Uruguay rounds—have transformed the landscape of global trade. They reduced tariffs and other barriers to trade and, in 1994, created the WTO as a permanent forum for trade negotiations and a body that could rule on trade disputes. But the most recent attempt to launch a new trade round, in Seattle in December 1999, ended in disaster. Gridlock between rich and poor countries about the agenda was set against a background of massive, at times violent, street protest. For anti-globalisation demonstrators, Seattle marked the beginning of a crusade that has now been carried to the streets of Genoa. It has cast a long shadow over the WTO.

Indeed, few believe the organisation could easily survive another failure in Doha. It would “go into hibernation”, says one Geneva official, and the multilateral trading system might wither. No doubt trade deals would still be made, but they would be bilateral and regional in scope, like the proposed Free-Trade Area of the Americas or the web of bilateral deals that is being woven in Asia.

Whatever the merits of regionalism, it is no substitute for global trade talks. An increasingly interconnected world needs trade rules that are global in scope; many areas where protectionist barriers need tearing down, notably agriculture, can be seriously tackled only on a global basis. Although the world's big economies could perhaps live with regionalism, scores of other countries, especially

in the developing world, would be left out. And without the cover of a new trade round, a string of bilateral trade disputes between the Americans and Europeans—including America's use of anti-dumping laws over steel, and its tax subsidies for exporters—could quickly degenerate into an all-out trade war. For the time being, these disputes are being toned down by the top negotiators on each side because they do not want them to overshadow Doha.



In short, the stakes at Doha are high. But with less than four months to go, the WTO's members are far from agreement on what a new trade round should be about. In previous rounds, the agenda for global trade talks was basically hammered out by America and Europe and presented to other countries as a done deal. This time, America and Europe began with fundamentally different priorities and visions and, though they are inching closer, they cannot yet agree. Agreement is made harder because the Bush administration has yet to win fast-track authority for trade talks from Congress. Besides, even if the EU and America reach perfect harmony, this is no longer enough. Many poor countries feel they were short-changed by the Uruguay Round, and they are not sure that more free trade will do them any good.

On July 30th, Mike Moore, the WTO's chain-smoking, plain-speaking director-general, will issue a public progress report. Underneath the encouraging language, his “reality check” will make a simple point. Launching a new round will require compromises on what a new round should include, by many countries and on several issues. And the shape of those compromises must become clear soon—or the round may not be launched at all.

Narrow or broad?

At the end of the Uruguay Round, some items, started but not finished, were promised a place on the agenda for the next round. They include liberalisation of trade in agriculture and services. The narrowest view of a new trade round, as favoured at first by the Americans, would include these two, plus some commitments to cut remaining tariffs on industrial goods and a few relatively easy things, such as streamlining customs procedures.

Such a “narrow” agenda (ambitious, though, by the standards of a decade ago) would still bring huge economic benefits. Recent calculations by Drusilla Brown of Tufts University and Alan Deardorff and Robert Stern of the University of Michigan suggest that reducing tariffs on agricultural and industrial products and services by 33% would give a one-off boost to global welfare of just over $600 billion. The Uruguay Round increased it, they reckon, by $75 billion.

Unfortunately, a narrow agenda is politically tough to deliver. Most services (telecoms, financial services, legal services, and so on) are relatively uncontroversial, but farming is an acutely sensitive subject. While average tariffs on manufactured goods have dropped from 40% to 4% over the past 50 years, agricultural tariffs have remained at around 40%. Farming remains horribly distorted by protection and domestic subsidies. Rich countries spend $300 billion a year supporting their farmers, as much as the entire national product of sub-Saharan Africa. With politicians shamefully in hock to the farm lobby, it is not surprising that talks on farming have never got very far.

The “Cairns Group” of agricultural exporting countries, which includes Australia and Argentina, wants ambitious commitments at Doha to tearing down barriers, as well as a clear timetable for tying up the talks. They want agriculture to be treated like any other traded good. The Americans publicly call for free trade in farming (which would help commodity producers), though in fact, as big subsidisers and protectors of farms, they would find real reform very hard. But it is the EU and Japan, with lots of small, highly subsidised and massively inefficient producers, that find every step to freer farm trade painful. Reform of the Common Agricultural Policy, and the spectre of EU expansion into an Eastern Europe filled with even more inefficient farms, has made agriculture an easier topic to discuss than it was a decade ago. Yet Pascal Lamy, Europe's top trade negotiator, is categorical. If the Doha mandate suggests that agriculture should be governed only by trade concerns, “there will be no agreement”.

In any case, the EU is unwilling to accept a narrow agenda at Doha. It also wants negotiations on three “new” areas: investment policy, competition policy and the environment. The Europeans make two arguments, one strategic and one tactical. The (plausible) strategic case is that the world needs trade

rules that go beyond tariffs, and that rules on competition and investment policy are the natural evolution of a multilateral trading system in the 21st century. The tactical case is that Europe needs a broader agenda, so that it can make those politically ticklish concessions on agriculture. But nobody knows exactly what the Europeans want in any of these areas, and uncertainty breeds suspicion.

Both for investment and for competition, the EU talks of defining broad rules that would govern the multilateral system. Simple competition rules, for instance, might include accountability, non-discrimination and fairness. The Europeans want to develop all-embracing principles of this sort, not detailed rules, though even broad-brush stuff may prove too much for other countries to bear. In an effort to soothe doubters, the EU has suggested that countries could opt out of these agreements if they did not like them. Usually, once countries have signed up to a round, they also have to sign up to everything agreed at it.

Although between 30 and 40 countries have informally supported the EU's agenda, many remain sceptical. Poor countries worry that these rules will be impossible for them to implement. (More than half of WTO members do not even have competition authorities.) Rich countries remember the failed efforts to forge a multilateral agreement on investment in the OECD several years ago. Robert Zoellick, America's top trade official, says his country would “not stand in the way” of a sensible negotiating approach on investment that had widespread support. On competition policy, America is less convinced. It worries that any multilateral competition rules might undermine its domestic laws. Its sensitivity on this has been heightened by the European Commission's veto of the all-American GE/Honeywell merger, which had been approved by the American authorities.

Paler shades of green

The real sticking-point, for the United States and for developing countries, is the EU's obsession with trade and the environment. The Europeans say they do not want to change the WTO's environmental rules, but simply to clarify them. They want to know how WTO commitments fit in with international environmental treaties, and to make sure they can go on with certain activities, such as eco-labelling of goods, that are driven by concern for the environment. They also want to be clear that the “precautionary principle”—by which countries can protect their citizens from perceived risks even when the science is uncertain—is allowed by the WTO.

American's trade negotiators cannot understand why Europe is so worried. In all the disputes so far that have involved environmental issues, they point out, the WTO has ruled in favour of domestic environmental legislation. Evolving case law thus suggests that environmental laws trump trade. So what is the Europeans' problem? Different legal traditions, to some degree. Anglo-Saxons may be happy with case law, but politicians in continental Europe, where laws are based on a civil code, like to write rules in advance.

The alternative suspicion, widely held among developing countries, is that the EU wants to use environmental issues as a back door to protectionism. If Europe is obliged to lower agricultural trade barriers, it will simply keep out food products by finding some “green” objection to them.

There may be something to this, but it is too cynical. With consumers rattled by various animal epidemics and fearful of genetically modified food, Europe's politicians cannot afford to look soft on anything to do with food trade. More generally, America's lone stand against a deal to rescue the Kyoto treaty on global warming has stiffened European convictions that they, alone, care about saving the world. Mr Lamy says openly that America's position on Kyoto has “reverberated into the politics of the environment and trade negotiations”. Politically, the Europeans will need to bring back something on the environment from Doha. The question is whether the rest of the WTO can live with it.

Dumping and the poor

Europe and America are clearly working hard to come to an agreement. Messrs Lamy and Zoellick are both convinced of the benefits of a new round. They have known each other a long time and get on well, as two marathon-running, workaholic technocrats might be expected to. The smart money suggests that they will reach a deal. But there is much more to be done at Doha: in particular, bringing poor countries to the negotiating table.

Since Seattle, the WTO, and Mr Moore in particular, have spent a lot of time rebuilding confidence with developing countries. But big areas of conflict remain. The most important concern the implementation of the Uruguay Round and the renegotiation of the WTO's anti-dumping rules. In many areas, poor countries claim that the provisions of the Uruguay Round need revisiting. On textiles, for example, all import quotas are meant to be eliminated by 2005, but the rich countries have so far done little. Elsewhere, poor countries want more time to fulfill their Uruguay Round obligations—requirements, for example, to get rid of trade-distorting investment rules, or to get their customs services streamlined.

Over 100 such proposals have been tabled. Around half are honest issues of implementation; the rest are proposals to renegotiate the Uruguay-Round agreements to favour poor countries more. The richer countries, in particular America, have long believed that if you sign up to commitments at a trade round, these can be renegotiated only in a new round. But a band of developing countries that calls itself the “Like-Minded Group”, led by India, Pakistan, Egypt and Malaysia, maintains that no new round should begin until these issues have been resolved.

After endless stalling, agreement seems closer. A group of seven neutral countries (quickly dubbed the “Magnificent Seven” by WTO insiders) divided the implementation proposals into those that could be agreed before Doha and those that had to wait, and the WTO's top brass produced a compromise proposal on July 13th. It left out tough issues such as textiles, and was deemed inadequate by the Like-Minded Group. But most observers reckon it is a good basis for negotiation.

Anti-dumping—in other words, the procedure by which a country can slap tariffs on goods it reckons are “dumped”, or sold below cost—is a much more difficult subject. Japan, South Korea and several big developing countries want to tighten up the WTO's rules to prevent what they see as the protectionist misuse of anti-dumping laws. For the United States, however, reforming anti-dumping law is politically untouchable. Industrial lobbies that liberally use such law, especially the steel industry, wield enormous power in Congress. More than 60 senators recently wrote to Mr Zoellick, telling him not to touch America's anti-dumping rules.

This rigid position makes little sense. The United States, with the world's best anti-dumping lawyers, is unlikely to lose out in any negotiation. It also has something to gain: America, after China, is the biggest target of anti-dumping actions. And as ever more developing countries start using anti-dumping rules, that trend is likely to continue.

In 1987, only seven countries started anti-dumping investigations. In 1997, 22 did. Most of the new users are poor countries such as India, South Africa and Argentina. Nonetheless, many developing countries are adamant that there must be language on anti-dumping at Doha. The challenge will be to find wording that Mr Zoellick can accept.

Although they are the biggest, these are not the only contentious issues on the Doha agenda. Many smaller items, such as revising the agreement on trade and intellectual-property rights and improving the way the WTO settles disputes (rich countries want deliberations to be public; poor countries do not) make reaching agreement yet harder.

Even if they worked in a political vacuum, negotiators would find it tricky to reconcile all these demands. As it is, politics ties their hands. One of the biggest problems is the political debate in America about fast-track negotiating authority. By giving the president fast-track, Congress agrees to accept or reject trade deals in their entirety. This authority lapsed in 1994, and President Bill Clinton's efforts to renew it failed. The Bush administration is pushing hard for fast track, now renamed “trade-promotion authority”. But Congress is sceptical.

Even if it passes fast-track, it would want to attach strings. These strings may weaken Mr Zoellick's negotiating position, or could threaten the round entirely. Tying trade to labour standards, for example, with sanctions as a threat, is a cause dear to unions and many Democrats. There is little risk, with a Republican administration, that this demand would reach Doha, but every risk that it may gum up the passage of fast-track, or even derail it—especially now that the Democrats are in charge in the Senate. Mr Zoellick does not need fast-track to launch a round, but he must have it to finish one. Without fast-track, and particularly while the bill goes through, American room for manoeuvre is limited.

The second, and related, political constraint is that this round has relatively few supporters and many loud, public critics. Big business, which lobbied heavily for previous rounds, is oddly quiet this time. In contrast, sceptics and opponents—whether brick-throwing anarchists or more sensible NGOs—are increasingly forthright and effective.

The perils of consensus

Lastly, the structure of the WTO itself is a handicap. It is a chaotic forum for talks, described by Mr Moore as " a parliament without parties, whips or standing committees; with no speaker and no rules about tedious repetition." Worse, it operates by consensus. To get a trade round started, all 142 members, or at least a critical mass of countries, must be on board.

No other effective international body works this way. In the International Monetary Fund or the United Nations Security Council, for instance, big countries dominate. But in the WTO the old rules, that rich countries call the shots and poor countries follow, no longer work, and no new structure has taken their place. As a result, the Doha agenda is being inched forward through an informal process of lobbying and issue-by-issue coalition-building. It is like an election campaign, says Mr Lamy.

The analogy is apt. But this is a campaign in which everybody could be a winner. For rich countries there are enormous gains to be reaped from more liberalisation, particularly in services. Freer trade, particularly in agriculture, would do more for many poor countries than any amount of debt relief. The negotiators preparing for Doha had better grasp that fast.

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Social policy

At last, good news on the family (probably)

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From The Economist print edition

AP

Is the nuclear family at last starting to recover? A guide to the twists and turns of a heated debate that stretches from welfare reform to a new contraceptive

FOR years, the condition of the family has produced some of the most agonised and despondent debates to be heard in America. The statistics of fragmentation have been simple, compelling and, it seems, irreversible. The proportion of children born out of wedlock rose from 18% in 1980 to 33% in 1999. The share of households made up of two parents and their children—the traditional nuclear family—fell from 45% in 1960 to only 23.5% in 2000, the first time the proportion has dropped below a quarter.

This decline has partly been caused by young singles moving out of the nest. Even so, the general rise of single-parent households has been of more than sociological interest. Some 42% of single-mother households are poor, compared with 8% of households with married parents.

Marriage (or the lack of it) is a better predictor of poverty than race or unemployment. And, since children of single mothers themselves tend to have children outside marriage, the prediction can glumly go on being made. So any evidence of improvement would be good news for what is arguably America's worst social problem—the bleak “marriage divide” that separates richer, better educated, married couples from poorer and worse educated single-parent families.

Does such evidence exist? The debate began in April this year, when the Census Bureau released an optimistic study. According to the bureau's figures, the percentage of American children living with their married biological parents had jumped from 51% in 1991 to 56% in 1996. “The nuclear family rebounds,” the bureau cried.

Wrongly. The rebound turned out to be a statistical artefact, resulting from an increase in the number of children living with step-parents or adoptive parents (up from 4.5m to 5.2m) and from the bureau's definition of a “nuclear family”. A two-parents-and-children family stops being “nuclear” if grandpa or grandma happens to live with the youngsters. During the 1990s, rising incomes and continued medical advances allowed more grandparents to live longer on their own, producing an apparent rise in the number of nuclear families with children. If the economy stays sluggish for a while, the grandparents may well start moving in with junior again, producing an apparent fall in the number of two-parent families (strictly defined). But of course there has been no real change, since this says nothing about the number of children under 18 living with their biological parents.

David Blankenhorn of the Institute for American Values, who worked that out, says that the share of all children living with their biological parents remained unchanged between 1991 and 1996, at 62%. And if you look at households with children (as opposed to families), the share made up by married couples actually fell from 76% to 72% during the 1990s. So the rebound story looks wrong.

Or was it? Two months later, a study by researchers at the Centre for Budget and Policy Priorities found better news. “The proportion of children younger than 18 living with a single mother”, write Allen Dupree and Wendell Primus, “declined from 19.9% [in 1995] to 18.4% [in 2000]—a statistically significant drop.” This was all the more striking because the number of children in single-parent families had increased every year from 1960 until 1995.

The decline was biggest among low-income groups and among blacks. Messrs Dupree and Primus found that among those living on less than double the (rock-bottom) poverty level, the share of children with single mothers fell from 34.2% in 1995 to 32.8% in 2000. However, this may not be the result of any revival in marriage. The share of children living with married parents continued to fall, albeit more slowly in the late 1990s than in the late 1980s. It may have chiefly reflected an increase in cohabitation—which is not necessarily a good thing.

A recent study by the Urban Institute, a Washington think-tank, found that cohabitation is worse than single motherhood for white and Latino children, and no better for blacks. Presumably, as the stereotype has it, the new boyfriend moves in, beats up the mother, molests the kids and gets thrown out.

Among blacks, however, the decline in single-family households was attributable to a recovery in the popularity of marriage. The proportion of black children living with their married parents rose strongly, from 35% in 1995 to 39% in 2000. The improvement came across the board. For the first time in decades, nearly as many black children are now living with two parents as with single mothers.

So the findings of Messrs Primus and Dupree are significant. They suggest that the remorseless rise in single-parent families that has defined the American social landscape for decades has relaxed, and the line may even be turning down.

This has contributed to another piece of good news: the proportion of American children living below the poverty line—16% in 1999—is the lowest in two decades. Mickey Kaus, a writer on welfare reform, argues that the improvements may well be attributable to the welfare reforms of 1996. These made marriage an explicit policy goal, rewarded states that lowered out-of-wedlock births, and created disincentives to single mothers on welfare.

Hacking through the statistics

Clearly, then, something is happening. But what, exactly? Messrs Primus and Dupree are careful to talk only of a declining share of children living with single mothers. That could mean there are simply fewer single-parent families. But, as Douglas Besharov of the American Enterprise Institute points out, it could also mean that the same (or even a rising) number of single-parent families are having fewer children. Instead of a typical single-parent family having two or three children, as in 1990, perhaps it now has one or two.

The family size of single-parent households has indeed fallen to an average of 1.64 members in the new 2000 census, compared with an average of 1.8 in 1980. And if you look at the absolute number of black children living with an unmarried mother (not just the share of the total), it rose faster between 1990 and 1998 than did the number living with both parents. This seems to confirm that a fall in family size may be the explanation.

On the other hand, most of the decline in family size took place in the 1980s, so that cannot account for the good news in the late 1990s (the biggest changes in the trends identified by Messrs Primus and Dupree occurred after 1998). And now, says Mr Dupree, the first findings from new research suggest that the number of people in households with single mothers is rising faster than in other families.

On balance, it seems safest to conclude that both things have changed. Marriage is making something of a comeback; and single mothers are choosing to have fewer children. The reason for the second fact may have less to do with welfare reform or social mores than the availability of a relatively new contraceptive.

The problem with the pill is that poorer American women often do not bother to take it every day. But for the past decade they have had access to an injectable contraceptive called Depo-Provera, which they need take only once every three months. In 1995 (the latest year for which figures are available), 3% of women taking contraceptives used this method; but the figures were higher for blacks (7%), teenagers (9%) and especially black teenagers (24%). Anecdotal evidence suggests that all these figures have risen since 1995. And Jackie Darroch, the director of research at the Alan Guttmacher Institute, a think-tank, says the steepest increase in Depo-Provera use has been among women who already have one child.

So is “the revival of the family” really just about the availability of a new contraceptive? Not entirely. There is a final twist to this tale.

The use of Depo-Provera is rising not only because it is easy to take, but also because single women want to have fewer children, or none. And that leads the debate back to things like welfare reform. As Rebecca Blank, a former Clinton administration official, points out, it is almost impossible, when looking at profound social changes, to separate one cause from another. The fact that the use of Depo-Provera is rising does not mean that welfare reform has not contributed to the change in family structure. Rather, faced with the reforms, women changed to better methods of contraception. If that meant small single-parent families, fine. If it meant fewer single-parent families, even better.

Despite all the reservations, marriage does seem to be making at least a mild comeback in America, and the improvement is concentrated among the poor and among blacks. The details may be fuzzy, but the news is good for all that.

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Teenage morality

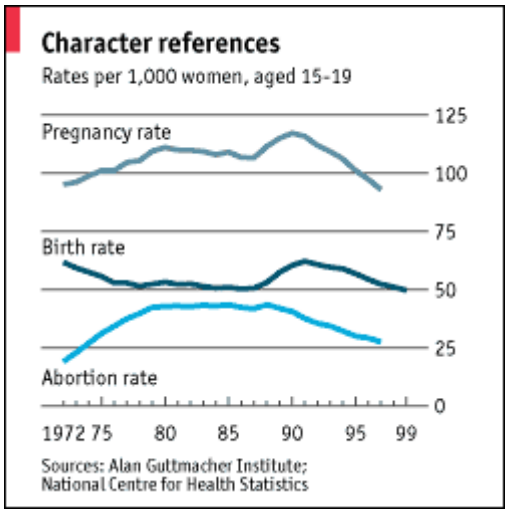
Condom sense

Jul 26th 2001 | CHICAGO
From The Economist print edition

Teenagers are behaving a little better, too

AT least some anxious parents can put away their shotguns. Alongside the good news about the family comes evidence that American teenagers are getting pregnant less often. The birth rate for women aged from 15 to 19 fell by 20% between 1991 and 1999, according to the National Centre for Health Statistics (NCHS). The abortion rate for these teenage women fell 27% over roughly the same period.

Most teenage pregnancies are unplanned; now these accidents are happening less often. The pregnancy rate for 15-19-year-olds fell 21% from its 1990 peak of 117 per 1,000 in 1990 to 93 per 1,000 in 1997, the last year for which data are available. (The pregnancy rate for all American women fell 10% in the 1990s, though the rate for women over 30 went up slightly.)



Why have randy teens become more responsible? Researchers at the Alan Guttmacher Institute attribute three-quarters of the drop in teenage pregnancies to improved contraceptive use and a quarter to delayed sexual activity.

The former chiefly refers to the use of Depo-Provera and other injectable contraceptives among girls and greater condom use by boys. This is partly caused by fear of AIDS and other sexually transmitted diseases. The delayed sexual activity is harder to explain. The proliferation of programmes to change attitudes towards premarital sex and childbearing must have helped. Two bigger factors are probably welfare reform, which has made life tougher for single mothers, and the booming economy, which opened up plenty of opportunities for childless girls.

The teenage abortion rate has fallen even faster than the pregnancy rate. It may have been affected by changing attitudes towards abortion or by abortion's more limited availability, says Stephanie Ventura, a demographer at NCHS. Roughly 30 states now have laws that require doctors to consult parents if a minor seeks an abortion.

And yet America's teenage pregnancy rate is still among the highest in the developed world. American teens are twice as likely to get pregnant as Canadian ones, and nine times more likely to find themselves expecting a child than teenagers in the Netherlands or Japan. Don't lock up that shotgun yet.

"Trends in Pregnancy Rates for the United States, 1976-97: An Update", National Centre for Health Statistics, Centres for Disease Control and Prevention, vol. 49, no. 4, June 6th 2001.

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California's economy

The real trouble

Jul 26th 2001 | SAN FRANCISCO
From The Economist print edition

Its economy's woes are exaggerated; not so those of its infrastructure

A YEAR ago, the state of California sat on a budget surplus of $7.2 billion. The Bay Area was the centre of the Internet boom: San Francisco (with a per capita income level of $49,695) and San Jose ($46,649) were the two richest cities in America. California's gross product was just about to overtake that of France.

Today, the surplus is gone, swallowed up by a power crisis that drove the state to start buying costly electricity when local utilities ran out of cash. The Internet bandwagon has gone off the rails. Employment in San Jose fell at an annual rate of 3% in the first five months of this year. The annual "Webby" awards held in San Francisco, once an orgy of dotcom self-congratulation, picked their way around the corpses of some 500 failed Internet firms.

A recent report by the Anderson School of Management at the University of California at Los Angeles predicts that the state's economy will go into recession in the second half of this year. The UCLA model reckons the economic contraction will be short (ending by mid 2002), but it projects that slowing job growth will gradually push unemployment to 1.16m—6.3% of the workforce—in mid 2003, up from 780,000 early this year.

Regional-development teams in other states are licking their lips in anticipation of a flood of firms fleeing the chaos. The scoffers forget two important facts. One is that falling back from a huge lead can still leave you in a strong position. Californians remain 5% richer than other Americans, despite personal income growth (one of the measures considered by UCLA) dropping below the national average for the first time in seven years. The other thing to remember is the strength of California's human and natural resources.

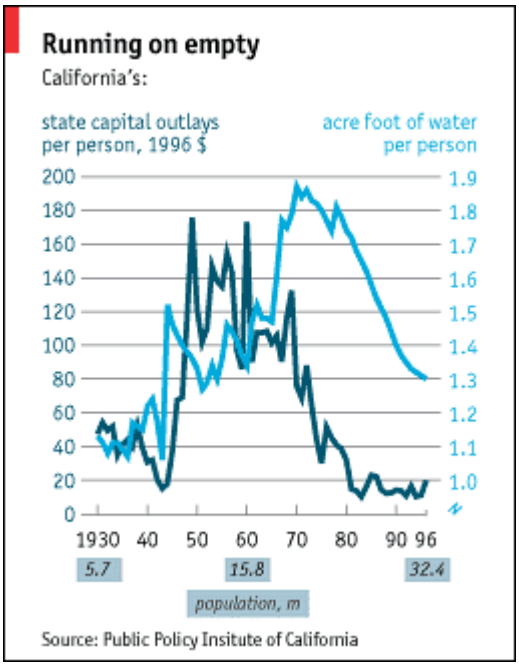
The recent boom followed a recession far deeper than UCLA's current predictions. After the cold war, employment in the aerospace and defence industry in southern California fell from 380,000 in 1986 to 169,000 in 1995. Almost two-thirds of the state's most stable, lucrative jobs simply disappeared. But the state picked itself up, inventing new jobs in futuristic industries, particularly in the Bay Area.

California's ability to bounce back leads some economists to doubt the UCLA predictions. Ross DeVol of the Milken Institute, a think-tank in Santa Monica, reckons that this time southern California, helped by its huge exporting industries, will make up for the smaller northern economy's setbacks. Exports to most parts of the world grew in the first quarter of the year; they were up 14.1% to Europe, 34.7% to Latin America and 68.7% to China. Unfortunately, such figures rely on overseas customers feeling perky.

Exports to troubled South Korea have fallen recently; and there are worries about Mexico, California's main trade partner in 1999 and 2000, which is now in recession.

If California does have a mild recession, it will hardly derail its economy. But it will expose the state's increasingly lousy infrastructure. The power crisis may have been largely caused by botched deregulation, but it was exacerbated by bottlenecks in the electricity grid. The state's water works, roads, airports, housing, sewers—not to mention its schools, universities and government buildings—are operating close to capacity. As the population continues to grow—from 36m today to some 50m by 2030—things could get quite nasty.

For the past 25 years, California has lived off an infrastructure built up during a period of bipartisan commitment to rapid growth after the second world war. Three great plans that culminated during the 1960s poured public money into the freeway system, the higher-education system and the state's water supply. Since the early 1970s, capital expenditure has tailed off, from a peak of around $180 per head in the 1950s and 1960s to less than $20 per head for the past 20 years (see chart).



What lies beneath

Lousy infrastructure already costs money: deliveries take longer and use more fuel, and workers need training they did not get at school. It also erodes the high quality of life that has always been one of California's attractions to ambitious and creative people. Why go to a beach near Los Angeles that might be closed because of pollution washing in from old sewers?

The shortcomings of the current “strategy”—emergency repairs after things have broken down—were amply shown during the energy crisis. On the other hand, Californian voters are a short-termist lot who remain sceptical about big infrastructure projects. There is not much chance of raising bonds and taxes like those that paid for construction in the 1950s and 1960s.

One underlying reason for the impasse is that many of the services provided by the state's infrastructure are virtually free, and consumed accordingly. Some of the abuses have long been obvious: California's farmers suck up 85% of the state's water at subsidised rates and then grow thirsty crops such as cotton in the desert. But a new study for the Public Policy Institute of California by David Dowall and Jan Whittington, economists at the University of California at Berkeley, points to much wider overconsumption of underpriced services. For instance, whereas 85% or so of undergraduates at (expensive, private) Stanford and CalTech graduate within four and a half years, only 48% at (cheap, state-run) Berkeley manage it in six.

Interestingly, attempts to make users pay more have been encouraging. Small price rises for water have led to more rational planting, and to techniques like drip irrigation. Marin County cut urban water use from 170 to 143 gallons a head between 1987 and 1998 by a plan involving staggered water rates. Keeping basic consumption cheap, and charging heavily only above a certain level, means that user-fees do not bear down on poor people. Dearer electricity this year has reduced its use. And an express road near San Diego with variable tolls has worked well.

The conventional wisdom in the state's capital, Sacramento, dismisses the idea of making voters pay for the things they use as political suicide. With many older white Californian voters, this certainly looks true. But newer Californians—whether immigrants or, as most of them will be, the children of older Californians—will suffer the most from the infrastructure's frailties. They will have to live farther away

from where they work, send their children to overcrowded schools, and end up in shabbier hospitals. And it is they who will then be doing the voting.

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San Diego

We shall swig them on the beaches

Jul 26th 2001 | SAN DIEGO
From The Economist print edition

In defence of alcohol rights

IF YOU are reading this while lounging by the sea, sipping a refreshing Pimms, raise your glass to the defiant drinkers of San Diego. Back in April, the city council voted for an 18-month trial ban on alcohol along Mission and Pacific Beaches. A “Ban the Ban” coalition has since collected 52,123 signatures to demand that the proposal be put to a citywide referendum. This week, the council agreed; it will go on the ballot next spring.

If San Diego has a lager-lout problem, it is not an obvious one. The well-buffed bodies of most of its beachgoers seem to belong to a different gene pool from the lobster-red, pot-bellied species that toss cans on Europe's beaches. You are as likely to encounter a Sunday prayer service (no wine, naturally) as boisterous dudes wanting to party all day long.

That said, the police force's statistics do suggest a certain imperfection. In the past two years, Mission Beach recorded 10,300 alcohol violations, the worst for any of San Diego's districts. Neighbouring Pacific Beach had just over 7,000. Only around 5% of these offences occur on the beach during the day; most take place in the surrounding streets, often at night. Still, pro-banners complain that beaches are places where you should be able to take your family. And locals complain that drunken beachgoers urinate in the streets and are sick in their gardens.

Opponents of the ban claim that a fundamental freedom is being infringed. Any drinking problems, they say, can be solved by more police patrols (the police already arrest garden-vomiters and the like). They also fret that drinkers will simply move to other beaches, particularly quieter, neighbourly Ocean Beach. All three of San Diego's beach town councils have voted against the ban, so the prohibition is turning into an issue of local control against interference from City Hall, a popular theme in California.

The pro-drinkers are circulating a petition to recall Byron Wear, the Republican councillor who sponsored the ban. He is unlikely to be booted out before his term expires in December 2002. But his enthusiasm for redeveloping former military bases helps to gather signatures against him. The Battle of the Beaches could be a fight to the end of the bottle.

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Russia and America

The love that dare not speak its name

Jul 26th 2001 | WASHINGTON, DC
From The Economist print edition

The wriggly road to an anti-missile deal

AP

Don't let an interceptor come between us

AS THE Soviet Union fell apart in the early 1990s, Boris Yeltsin and Mikhail Gorbachev liked to say that “the old system is dead. The new one has not yet been born.” After the Genoa summit, the Bush administration is saying something similar about arms control. The Anti-Ballistic Missile (ABM) treaty is dead. The agreement to replace it has not yet been born.

George Bush has never wavered in saying he wants a new arms-control regime. Given the president's power, a new system was always likely to be established, in one way or another. The question was whether it would come about through unilateral American abrogation of the ABM treaty, which some said would “disrupt the balance of power”, or through negotiations with Russia, which could in fact strengthen nuclear security.

By agreeing with Mr Bush at Genoa “that major changes in the world require concrete discussions of both offensive and defensive systems”, Vladimir Putin made a negotiated outcome possible. By going further than he has before in accepting that there will be changes to the ABM treaty, he opened the way for deployment of an anti-missile defence without confrontation with Russia or with America's more nervous European allies. In exchange, Mr Bush's willingness to negotiate cuts in offensive weapons holds out hope that Russia can help to shape the new framework.

None of this is inevitable. Russia has not yet agreed to anything, and America seems more determined than ever to go ahead by itself if an agreement cannot be reached within a few months. At their meeting earlier this year in Slovenia, Presidents Bush and Putin took the first step towards security-by-negotiation by saying they would make missile defence part of a bilateral agreement. But the Genoa summit showed that the two sides do not yet define “agreement” in the same way.

The Russians mean a treaty with legally binding constraints—preferably a modified ABM treaty, or a new treaty ratified by the two countries' parliaments. After the Genoa summit, just as after the Slovenian one, Mr Putin repeated his country's desire to maintain the ABM treaty in some form.

The Bush administration does not like treaty-based constraints of any kind (this week it pulled out of the 1972 Biological-Weapons Convention—see article). On missile defence, Colin Powell, the secretary of state, briefly went off-message in mid-July when he talked of a treaty in an interview with the *Washington Post*. Since then, the administration has tried to snuff out even that fleeting Russian hope. Mr Bush never mentions the T-word, and after the Genoa summit his national security adviser, Condoleezza Rice, was careful to talk only of a “new strategic framework”.

Arguing over whether something is a “treaty” or a “framework” may sound like diplowaffle. In fact, it cuts to the heart of the question. For the Russians, a treaty is the only sure way to limit a defensive missile system so that it cannot neutralise Russia's own offensive nuclear forces in the foreseeable future. Mr Bush's people reply that a defensive system would not threaten Russia for the foreseeable future (because the technology is not advanced enough). And they add that the testing of the system has barely begun, and it is unfair to start imposing constraints before anyone knows what is possible.

For Mr Bush, a “framework” means, at most, a promise, say, to limit the number of missile-interceptors. It is unlikely to mean eschewing space-based systems, as Russia would like. It may mean nothing more

than promising to tell Russia in advance what America is up to.

There are reasons for thinking that a compromise will not be easy. One is the administration's insistence on speed. It wants to hold, in the next few months, more anti-missile tests which (it says, though other Americans disagree) are banned by the ABM treaty. On the other hand, some Russians sound as if they might accept something short of a treaty. “If they decide to go ahead with a national missile defence,” says Vladimir Lukin, a former Russian ambassador in Washington, “[the Americans] can well do it without bothering to negotiate with us.” Mr Putin has taken intriguing steps to minimise military opposition to a climbdown. After replacing his long-serving defence minister with someone from his own background, the security services, he has just sacked the defence ministry's most outspoken opponent of missile defence.

Failure to agree on a new treaty need not amount to complete failure. A “framework” might yet be acceptable to Mr Putin, if the promises of restraint were specific and credible enough and if America enshrined in the deal a reduction of its offensive nuclear force from today's 6,000 or so missiles to 1,500, which Russia wants and Mr Bush has offered. That, if America gets its way, is what the negotiations will be about. It holds out a tantalising promise. But remember how painful the transition was between the death of the old Soviet system and the birth of a new Russian one. Keep your fingers crossed.

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Germ warfare

Stop the world, I want to get off

Jul 26th 2001 | WASHINGTON, DC
From The Economist print edition

Has George Bush ever met a treaty that he liked?

TO LOSE one international treaty may be regarded as a misfortune. To lose five in seven months (see table)...well, let's just say there's a pattern here. On July 25th, three days after it had agreed to talk to Russia about plans to withdraw from the 1972 Anti-Ballistic Missile treaty, the Bush administration rejected a draft protocol for enforcing another 30-year-old treaty governing deadly weapons. This time, it was the Biological Weapons Convention, which bans germ warfare.

The convention prohibits the development, production or possession of biological weapons—things that Colin Powell, the secretary of state, once said scared him more than nuclear weapons themselves. For 20 years, the convention had no means of enforcement, and did not seem to need any. The unpredictability of germ warfare seemed to make biological weapons useless on the battlefield and both sides had antidotes to the relatively narrow range of weapons available. No one seriously thought the superpowers crazy enough to use germ warfare.

That view changed when it turned out, first, that the Soviet Union had set up a big stockpile of biological weapons, and, second, when “advances” in biotechnology made the idea of attacking particular groups of people feasible, reducing unpredictability. Iraq, Iran, Syria, Libya, China, North Korea, Russia, Israel and Taiwan are all known to have biological weapons. Sudan, India, Pakistan and Kazakhstan probably do. To prevent the list getting even longer and uglier, the convention's signatory countries belatedly tried to set up a policing mechanism to be discussed this week in Geneva, for final adoption in November. This was the protocol America rejected.

Any inspection regime has to strike a balance between being intrusive enough to catch germ warriors and not being so meddlesome as to disrupt legitimate research by biotechnology companies. America argued that the 200-page proposal failed to do this. It would have permitted ordinary inspections at two weeks' notice, and “challenge inspections” at a few days' notice, while not allowing inspectors to carry more than a few items of simple equipment such as personal computers. This, the Americans said, would not have caught the rogues but would have left Californian biotechnology giants vulnerable to intellectual-property theft. And, by granting legitimacy to the inspections, a flawed regime might have been worse than no regime at all.

Naturally, America has shouldered all the blame for rejecting the protocol, but there is plenty more to go round. China also criticised it. Russia wanted loopholes so it could continue some suspicious research. Japan and Germany stand accused of demanding too lax an inspection regime for fear, critics allege, of commercial theft. Such conflicting demands made an already difficult task harder.

Still, it is unclear whether technical problems alone would have scuttled the protocol. The aim was never precise verification, but rather to use a process of admittedly imprecise inspections to make cheating gradually harder. In other words, it was an attempt to enforce norms of international behaviour by treaty. After five treaties have been shot down in seven months, it is hard to avoid the suspicion that it is the very idea of multilateral co-operation that Mr Bush objects to.

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Tongue on the loose

Jul 26th 2001
From The Economist print edition

How dangerous is Paul O'Neill?

IN THE president's boardroom, Paul O'Neill was to be the chief financial officer. Years as the boss of Alcoa—a huge aluminium firm with 140,000 employees in 36 countries—and an early career in Washington, DC, produced the perfect resumé for a Republican treasury secretary: corporate chieftain with global reach and government experience. He would be "a valued adviser", said George Bush, "and a steady hand."

Six months on, Mr O'Neill is more notable for his loose tongue than his steady hand. The litany of O'Neillisms almost rivals the Bushisms of his boss. Only weeks into the job, he sent currency markets into a spin by musing that America was "not pursuing, as often said, a policy of a strong dollar." For years his predecessors had maintained that a strong dollar was a good thing for America. In subsequent remarks he has questioned the need for public pensions or government-supported health care for the elderly ("Able-bodied adults should save enough on a regular basis so that they can provide for their own retirement and, for that matter, health and medical needs"). He has written off the tax code ("9,500 pages of gibberish"), and brushed off nuclear accidents ("If you set aside Three Mile Island and Chernobyl, the safety record of nuclear is really very good").

Diplomatic niceties are clearly not his forte. He has called the European Commission "off the wall" and recently explained to *The Economist* that crisis-struck Argentina is a "laid-back" place with "no export industry to speak of", whereas Brazil is a "go-go, we-will-do-it, kind of place". Nothing upsets Argentines more than being compared unfavourably with Brazilians.

Ruffling foreign feathers loses few votes at home. Mr O'Neill's approach is more problematic with tricky domestic issues. In June he told investment-industry officials that Social Security has "no assets" and that those who are against its partial privatisation through individual accounts "just don't understand the facts". In fact, America's pension system does hold assets—$1 trillion of Treasury bills, to be precise—and there are plenty of ways to solve the system's looming funding problems without private accounts. Mr O'Neill does have a point: the trust fund's assets don't change the fact that more resources will be have to paid out (and spending cut or taxes raised) as the baby boomers retire. But his blunt comments were hardly a sensible opening salvo in a highly contentious debate.

This political tin ear is combined with peculiar priorities. Mr O'Neill is obsessed with workplace safety and paperless offices. He loves talking about how he made Alcoa a much safer place to work, and laments that the Treasury loses more days to worker injury than the aluminium giant—which is indeed sad. (The comparision is fair: the two have similar numbers of employees.) In April a Treasury memo was circulated urging people to reduce clutter in their offices and pointing them to a Treasury website that offered tips on how to do so safely. A recent visit seemed to indicate that this obsession had hit an extreme: the treasury secretary's office was completely empty, and Mr O'Neill was working at a table in a small ante-room. Mercifully, it turned out that his office was merely being redecorated.

The truth is that Mr O'Neill has not adjusted from corporate America to Uncle Sam. He is appalled by the inefficiency of government. Five months, he reckons, was far too long to pass a big tax cut; at Alcoa a similar issue would have been settled in two weeks. He models his policymaking on his corporate successes. As boss of Alcoa, Mr O'Neill negotiated an international agreement limiting aluminium production. He now wants to do the same thing for steel—in six weeks. His views on economic policy are

equally defined by his days at Alcoa. He wants to get rid of corporate income taxes (in fact, he managed to ensure that Alcoa avoided paying very many). Poor countries need to improve their productivity, but the World Bank must not encourage them to “invest in sectors that are already over-supplied”.

The rule, not the exception

Some of Mr O'Neill's ideas—on steel, for instance—are rotten ones. Many others contain a germ of good sense. And it is fun to listen to a likeable, rather folksy man unafraid to speak his mind. But the problem is that government is not Alcoa, and the treasury secretary does not have the freedom of a corporate boss. Public musing about the merits of social insurance may be intellectually interesting, but it is politically daft, especially coming from a multi-millionaire. Nor is ranting about Washington's inefficiency a solid way of helping him to get things done.

Mr O'Neill is said to get on well with President Bush, who counts personal charm above public syntax. But Republican insiders say that on domestic priorities, such as Social Security and tax reform, Larry Lindsey, the top economics man in the White House, carries far greater weight. In the international arena, the United States is simply not playing the leadership role it used to under his more intellectual predecessors, Robert Rubin (a Goldman Sachs banker) and Larry Summers (a Harvard academic). They ensured that America set the international financial agenda and masterminded how to deal with economies in crisis (not always with brilliant results, it must be admitted). Now there is no global financial agenda to speak of, and the Treasury's international staff are twiddling their thumbs.

After two treasury secretaries whose brain power was never questioned even by their political foes, Mr O'Neill is a bit of a shock. Historically, he is not the exception; Messrs Rubin and Summers were. Mr O'Neill is merely the latest manifestation of a long tradition of corporate bigwigs who have served as relatively mediocre treasury secretaries. (Nicholas Brady, Treasury secretary under Mr Bush's father, was an earlier model.) For good or ill, the world has got used to looking towards America for leadership in economic policy. And that is something Mr O'Neill may be too much of a maverick to provide.

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The Latinobarometro poll

An alarm call for Latin America's democrats

Jul 26th 2001
From The Economist print edition

Weak economies are breeding political disillusion

LATIN Americans are wavering in their support for democracy; they are disillusioned with privatisation; but they are in favour of free-trade agreements, both among their own countries and with the United States. Those are some of the results of a new regional opinion poll taken by Latinobarometro, a Chilean organisation, and published exclusively by *The Economist*.

Latinobarometro has conducted similar opinion surveys each year since 1995, so the poll is good at capturing shifts in opinion. This year's results make sobering reading for democrats. Compared with last year, they show an unprecedentedly sharp decline in support for democracy almost everywhere in the region. There is also a more modest rise in the numbers of those who favour dictatorship—though only in Paraguay do a majority say that authoritarian government might be preferable to democracy (see table 1).

Doubting democrats 1

Which of the following statements do you agree with most?
%*

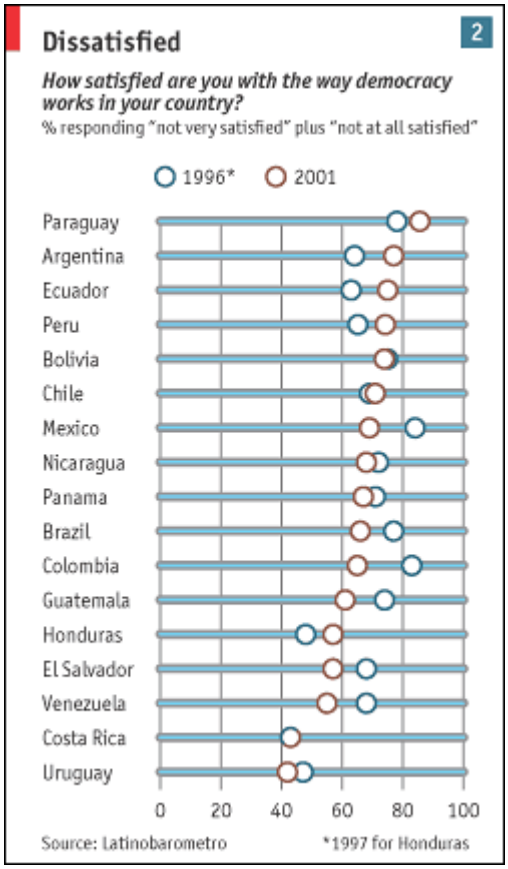
	Democracy is preferable to any other kind of government						In certain circumstances, an authoritarian government can be preferable to a democratic one					
	1995	1996	1997	1998	2000	2001	1995	1996	1997	1998	2000	2001
Argentina	76	71	75	73	71	58	11	15	15	16	16	21
Bolivia	na	64	66	55	62	54	na	17	16	22	13	17
Brazil	41	50	50	48	39	30	21	24	19	18	24	18
Chile	52	54	61	53	57	45	19	19	16	16	19	19
Colombia	na	60	69	55	50	36	na	20	13	17	23	16
Costa Rica	na	80	83	69	83	71	na	7	9	21	6	8
Ecuador	na	52	41	57	54	40	na	18	23	19	12	23
El Salvador	na	56	66	79	63	25	na	12	13	10	10	10
Guatemala	na	51	48	54	45	33	na	21	26	29	21	21
Honduras	na	42	63	57	64	57	na	14	17	9	15	8
Mexico	49	53	52	51	45	46	15	23	31	28	34	35
Nicaragua	na	59	68	72	64	43	na	14	19	9	6	22
Panama	na	75	71	71	62	34	na	10	10	8	18	23
Paraguay	52	59	44	51	48	35	20	26	42	36	39	43
Peru	52	63	60	63	64	62	23	13	16	12	13	12
Uruguay	80	80	86	80	84	79	8	9	7	9	9	10
Venezuela	60	62	64	60	61	57	21	19	17	25	24	20

Source: Latinobarometro
*Not including those who answered "it doesn't matter" and don't knows

The only country where support for democracy has increased (marginally so) was Mexico, where Vicente Fox's election last year marked the end of seven decades of non-democratic rule by the Institutional Revolutionary Party. Peru also bucks the regional trend: its high and stable support for democracy may reflect hope after the ousting of Alberto Fujimori's authoritarian regime last year.

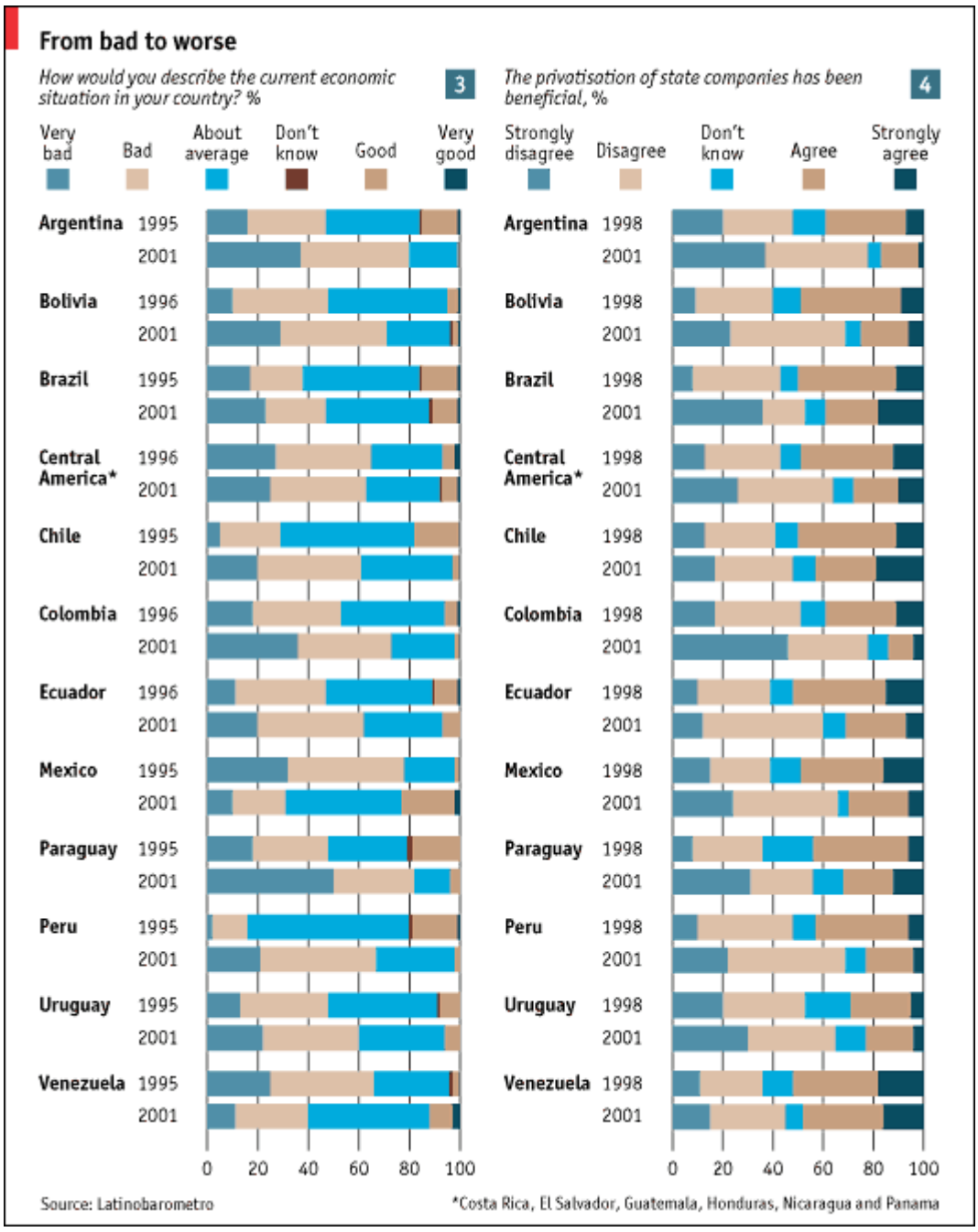
It is striking that support for democracy is relatively low in Brazil, Mexico and Colombia, the region's three most populous countries, and is falling in Argentina and Chile. The reasons for discontent are not hard to find. In most, but not all countries, the majority of respondents are dissatisfied with the way democracy is operating in practice (chart 2).

That discontent has much to do with Latin America's renewed economic weakness. In the region as a whole, around 60% say that their country's economic situation is "bad" or "very bad". Only in Mexico and Venezuela has the popular view of the economy improved since the mid-1990s (see chart 3—click to enlarge below). Mexico was unique among the larger Latin American countries in escaping recession in 1998-99; Venezuelans' generally optimistic attitude owes much to the hopes they place in Hugo Chavez, a populist former paratrooper whose election as president in 1998 put an end to four decades of rule by two parties widely seen as corrupt and insensitive to poverty.



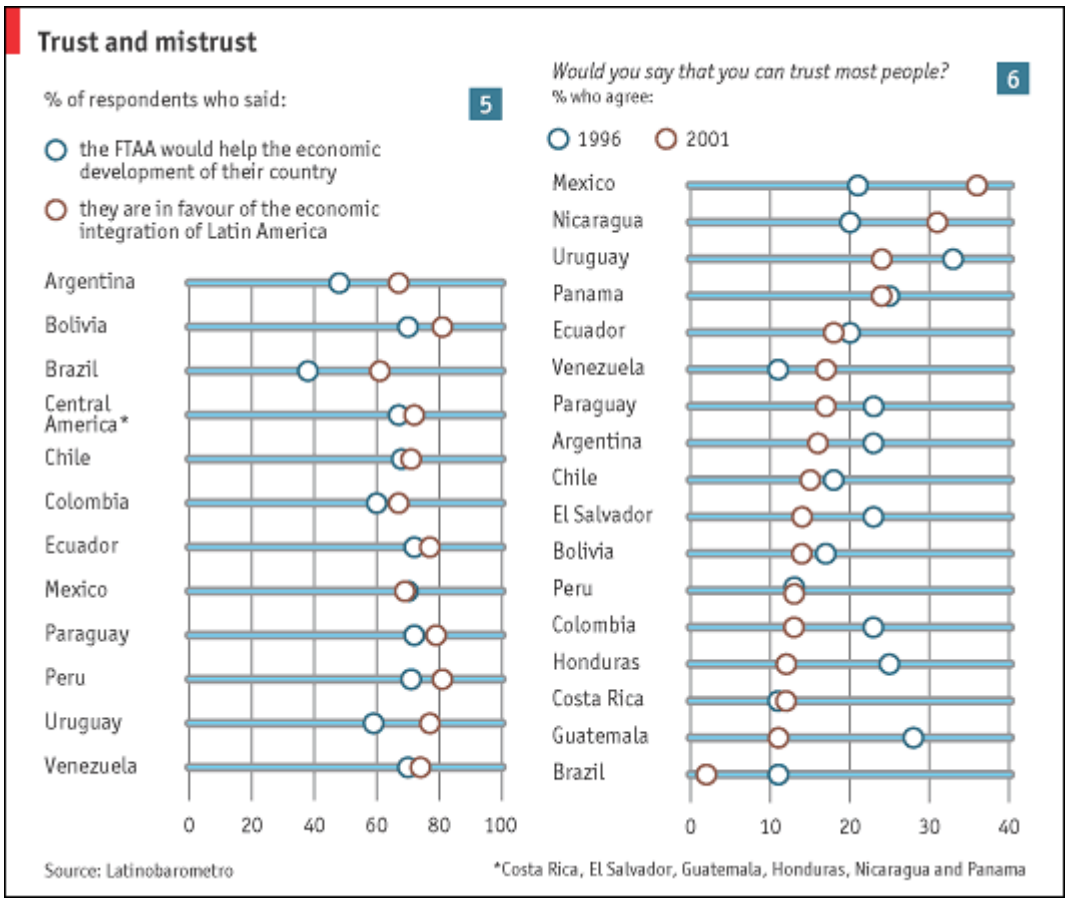
This suggests that Latin America's still relatively young democracies have yet to prove themselves in the eyes of many citizens. "The more people think the economy is tied to democracy, the more democracy is vulnerable," says Marta Lagos, the director of Latinobarometro. "In stable, industrialised democracies, no matter how badly a government does, democracy as a system is not punished." In Spain, for example, similar polls suggest that democracy commands the stable support of three-quarters of the respondents.

The economy is not the only problem. Latinobarometro found that four out of five respondents said that both crime and drug addiction had "increased a lot" in their countries in the past three years, up from around 65% when the same question was asked in 1995. Two out of five said that they or a family member had been a victim of crime in the previous 12 months. Four-fifths said that corruption had "increased a lot" in the past three years.



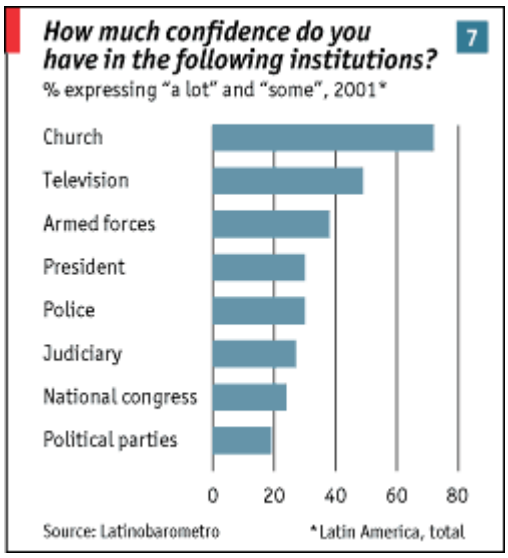
Past Latinobarometro surveys have shown that most Latin Americans are broadly in favour of the market economy. This year, 52% agreed that “prices of products should be determined by free competition”, while two-thirds want foreign investment in their countries. But many are having second thoughts about privatisation (see chart 4 in this paragraph—click to enlarge). Everywhere, opinion is less favourable to privatisation than it was three years ago. Interestingly, privatisation is least unpopular in Venezuela, where Mr Chavez has sold some state businesses.

Two-thirds of respondents think that the establishment of the proposed Free-Trade Agreement of the Americas would help their country's economy (chart 5 below—click to enlarge), and over 70% favour the economic integration of Latin America. But opinion in Brazil, whose government has been cautious towards the idea of a big free-trade zone, is markedly more sceptical than opinion elsewhere, with 43% saying it would help “little” or “not at all”. In general, Latin Americans have increasingly warm feelings about the United States: around 70% say they have a “very good” or “good” opinion of the place, up from 53% in 1995.



The survey shows that some Latin American attitudes remain very different to those that political scientists often cite as characteristic of successful capitalist democracies. For example, most Latin Americans mistrust their countrymen, even more than five years ago (chart 6 in this paragraph—click to enlarge), but attach little value to self-reliance. Neither do they place much trust in their political institutions (chart 7 below).

There are variations from country to country, with Uruguay and Costa Rica showing greater support for democracy and less gloom than other countries. And there are signs that younger people, who were brought up under democracy, are more favourable to it. But the optimism that accompanied the rebirth of democracy in the region two decades ago now seems to have worn extremely thin.



Latinobarometro is a non-profit organisation based in Santiago, Chile, which has carried out an annual survey of opinions, attitudes and values in Latin America since 1995. The poll was taken by local opinion-research companies in 17 Latin American countries, and involved 18,135 interviews, which were conducted in April and May 2001. The margin of error varied from 2.8% to 5%. The complete data from the survey is available for purchase. Further details from latinobarometro.

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Brazil's economy

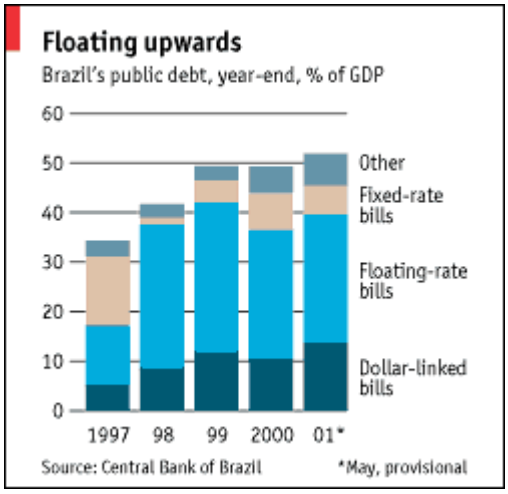
In hock, again

Jul 26th 2001 | SAO PAULO
From The Economist print edition

The debt nightmare recurs

WITH an election due next year, President Fernando Henrique Cardoso faces political demands to relax his grip on public spending. But Argentina's woes have brought powerful worries about Brazil's finances. So officials went to the IMF in Washington this week for talks on a new agreement to replace one that expires in December, while back in Brasilia the government said it would trim 1 billion *reais* ($405m) from public spending this year.

Brazil's unsuccessful attempts to prevent a devaluation of its *real*, which eventually took place in 1999, caused a sharp rise in its public debt (see chart). After the devaluation, spending cuts and higher taxes seemed to bring the debt under control. The government hoped to cut its total debt from a post-devaluation peak of 52% of GDP to 46.5% by the end of this year. But its plans have gone awry.



Fears of a debt default in Argentina, and Brazil's own electricity shortage and political squabblings, have sent the *real* plunging, despite interest-rate rises. Since much of Brazil's debt is now tied to interest rates or the dollar, the burden is rising again. Even after a fresh spending squeeze, the debt will rise to 53% of GDP by December, and higher thereafter, reckons CSFB, an investment bank. Almost a third is repayable within a year, making Brazil vulnerable to a market panic.

Part of the rise in the debt stems from the government's laudable policy of exposing the "skeletons" in its fiscal cupboards—the unpaid bills that in the past were masked by inflation. These include not just the bad debts of state banks, but the deficit of a mortgage-subsidy fund and a huge lawsuit over unemployment-insurance funds. Add in a bail-out this month of two big federal banks and tackling such problems will have added almost ten percentage points to Brazil's debt ratio. But further unresolved court cases against the government could add another eight points, says Simone Passini, an economist at UBS Warburg.

Whatever the reasons, the more the debt increases, the greater the likelihood that left-wing candidates in next year's presidential election will call for Brazil to "renegotiate" its debts. The government's debt-interest bill—likely to reach 9.5% of GDP this year—now exceeds its spending on health and education combined. Talk of debt renegotiation would increase greatly if Argentina defaulted. The mere thought of a potential defaulter winning Brazil's election would alarm investors, adding to the weakness of the currency.

What can the government do? A new IMF deal should help Brazil weather any coming market storm. But it may not be enough. Hitherto, tax increases have been the government's main weapon in trying to stabilise the debt. But the state already takes about a third of national income, and the unreformed tax system is a brake on economic growth. Another spending squeeze would be tough, too; most public servants have had no pay rise since 1994.

One answer is to press on with structural reforms, such as privatising the remaining state banks, energy and water companies. This would knock a chunk off the public debt while shifting the cost of infrastructure investment to the private sector. But congressmen have spent most of this year trading corruption allegations rather than passing reforms. One of the main targets, Jader Barbalho, stepped

down “temporarily” as Senate president on July 20th. That may clear the minds of Mr Cardoso’s quarrelling coalition.

Argentina’s fiscal austerity plan has brought it some respite in the financial markets. But political support for the plan is still shaky, and official hopes of its speedy approval by the country’s Senate seemed to have been dashed this week. If Brazil does not move quickly, it could find itself in a similar hole to its neighbour.

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Colombia's wars

Rights, wrongs and powers

Jul 26th 2001 | BOGOTA
From The Economist print edition

EPA

Army, judge, jury—and executioner?

A move to give the army more legal powers has some powerful critics

Get article background

SINCE becoming Colombia's president three years ago, Andres Pastrana has tried to persuade his country's main guerrilla group, the 17,000-strong FARC, to make peace while at the same time working to ensure that it cannot win a military victory. That has involved strengthening the armed forces with American aid, while trying also to get them to be less disdainful of human rights. Now Mr Pastrana is pondering a decision that pits the army's effectiveness against concerns for rights. A month ago Congress approved a controversial national-security and defence bill. To become law, the bill awaits only Mr Pastrana's signature. But the presidential hand has wavered.

The bill aims to give the armed forces greater legal freedom, and reduce outside checks and scrutiny of their actions. It would make local-government officials subject to military authority in "theatres of operation". It would allow the armed forces to detain civilians, though imposing upon them an obligation to advise a judge of any arrests and to abide by his instructions. And it would require the attorney-general to grant judicial powers to the army when prosecutors are unable to accompany military operations.

The bill also states that investigations of abuses by the security forces should be carried out only by the military branch of the prosecutor's office (and thus not its human-rights arm). And it would cut from 60 to 30 days the time that the attorney-general has to bring charges in such cases. The armed forces would also be exempted from spending cuts imposed elsewhere in government (as, in practice, they are anyway). And the government would be required to draw up an ill-defined "integral anti-terrorist strategy".

Army commanders have long wanted such a law. They argue that they are hobbled by the need to fight a war under the restraints of peacetime legislation. They also point out that in many of the more remote parts of the country the guerrillas are present but judicial officials are not.

The bill is supported, too, by the national press, businessmen and public opinion. Most Colombians are fed up with the lack of progress in the peace talks, and furious that the FARC continues to kidnap, attack towns and force businesses to pay its "revolutionary taxes".

But opponents of the bill worry that the armed forces cannot be trusted not to misuse these new powers. Although the human-rights record of the security forces has improved, critics say that the dirty work has merely been “outsourced” to right-wing paramilitary groups with ties to army officers. Although the bill was apparently made less draconian in its passage through Congress, many of its clauses have also become alarmingly vague. Critics say that parts of the bill break international human-rights agreements. These, and perhaps others, may be struck down by the Constitutional Court.

But perhaps the most significant opposition comes from Washington. Last year, the United States approved $1.3 billion in mainly military aid to Colombia. That aid comes with human-rights conditions attached, though some of those were waived by the Clinton administration. An increasing number of Democrats in Congress are now uneasy about Plan Colombia, as the aid programme is called.

This week a retired general accused of collaborating with paramilitaries was arrested, in what looked like a gesture aimed at placating the critics in Washington. In the event, the House of Representatives voted on July 24th to approve a $676m aid bundle for Colombia and its neighbours, intended as a follow-up to Plan Colombia. The aid money still has to go through the Senate. In return for approving the aid, critics there may press Mr Pastrana to veto the national-security bill. The presidential pen may hover over the page for a while yet.

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Nicaragua

Stopping Ortega

Jul 26th 2001 | MEXICO CITY
From The Economist print edition

Could the Sandinist leader return to the presidency?

AP

IT WOULD be one of the more improbable comebacks of recent times. In 1990 Daniel Ortega stepped down as Nicaragua's president, after a decade of chaotic socialism and American-backed civil war. After another decade in opposition, while Nicaragua's economy has gradually been modernised, he and his still unreconstructed Sandinist revolutionaries look a little irrelevant. Yet the opinion polls suggest that in the election in November Mr Ortega could become president again.

That prospect has galvanised President Arnoldo Aleman's ruling Liberals. The anti-Sandinist vote has been split between the Liberals' businessman candidate, Enrique Bolaños, and the Conservatives. But the Conservatives have problems, some of them of the government's making.

At first, the Conservatives hoped that their candidate would be Jose Antonio Alvarado, a former minister of Mr Aleman's. But after falling out with the president, Mr Alvarado lost his job when a court ruled that he could not hold office because, like many political exiles in the 1980s, he had renounced his citizenship for a time.

Using the same pretext, the Liberal-dominated electoral council last month barred Mr Alvarado from running for president. Noel Vidaurre, the Conservative party chairman, took over the candidacy, but he resigned last week. Rumour has it that Mr Vidaurre caved in to pressure from pro-Liberal businessmen and American diplomats, who fear a strong Conservative candidacy would give Mr Ortega victory. The truth may be more prosaic. Carlos Chamorro, editor of *Confidencial*, a Nicaraguan magazine, says that Mr Vidaurre lost support in his party, having failed to come up with money or alliances. The Conservatives must find another candidate if they are to retain their registration as a party. But they will certainly lose votes. Conservative defectors are much more likely to vote Liberal than Sandinist.

The Sandinists still have the solid support of a third of Nicaraguans, because of their toppling of Anastasio Somoza, a corrupt dictator, in 1979, their progressive social policies and their spirited if disastrous battle against the United States' intervention. Others dislike them less than the ruling Liberals. Mr Aleman and several officials have faced allegations of corruption. Their critics claim they have evaded formal charges partly by manipulating laws and institutions.

One of Mr Aleman's actions was to have Agustin Jarquin, the government comptroller and his chief accuser, jailed and later squeezed out of the job. Mr Jarquin is now Mr Ortega's running-mate, even though in the 1980s he was also jailed by the Sandinists. But the Sandinists' image is none too clean either. And Mr Ortega is still harried by allegations that he sexually abused his stepdaughter.

Moreover, Mr Ortega colluded with Mr Aleman in a pact that gave their parties control over institutions such as the electoral council. The council went on to deny registration for the election to some smaller parties. Many voters supported the Conservatives out of disgust with both the Liberals and the Sandinists. For them, the choice now is not appetising.

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Indonesia

But what will Megawati do?

Jul 26th 2001 | JAKARTA
From The Economist print edition

Indonesia's most popular leader has at last inherited the top job—along with a horrendous bundle of troubles

Reuters

Get article background

DURING the election of 1999, Megawati Sukarnoputri was studiously careful to avoid being explicit about policy. Instead, she exploited her symbolic appeal—as the daughter of Indonesia's first president, Sukarno; as a victim of its second, Suharto; and as a patriot who vaguely promised to heal the country's wounds. That same approach allowed her to appear to stand above the fray during Mr Wahid's impeachment. No doubt, Miss Megawati will want to remain stately and reserved as president too, to project power and promote stability. But now that she is in charge she will also have to do what she has so far avoided: unveil her plans for the country's future.

The problems she confronts are huge. Even the less urgent ones would rattle most new presidents elsewhere. More than three years after Suharto fell, Indonesia has yet to decide what form of government it wants, other than a vague preference for democracy. It is also devolving new powers and responsibilities to ill-prepared local governments, a step that would be perilous for any country, let alone an archipelago of 200m people.

The biggest nightmares facing Miss Megawati, however, can be grouped under two loose headings: the economy and the armed forces. In her approach to both, her nationalist leanings will warrant concern. But each encompasses such a wide array of issues that nationalism alone can hardly determine her policies.

Start with the economy. Indonesia's real GDP is still over 10% smaller than before Asia's financial panic began four years ago, and is expected to grow only 2.8% this year. That is too feeble to overcome Indonesia's crippling corporate debts, which after years of inaction remain the biggest in the region. Neither will it help to tame the country's runaway fiscal deficit, which will be difficult to hold below 5% of GDP. Miss Megawati also inherits a frosty relationship with the IMF, which has withheld assistance for months.

Her greatest asset in dealing with all this is that she is not Mr Wahid. Although investors cheered his inauguration 21 months ago, his erratic statements and endless cabinet shuffles buffeted the financial markets relentlessly, eventually driving the currency down from under 7,000 rupiah per dollar to over 11,000 at the end of his rule. Although investors may eventually cool towards Miss Megawati as well, the currency leapt the day she was sworn in, as Indonesia looked forward to a little less volatility.

At mid-week, Miss Megawati had yet to name her new cabinet. But her advisers have been negotiating a power-sharing deal for months, and its rough outlines seem encouraging. As Mr Wahid did in his original cabinet, she will dole out portfolios in proportion to each party's standing in parliament. But her own PDI-P plans to control the main economic posts, to limit the infighting that paralysed Mr Wahid's recovery efforts. And whatever her own administrative capability, or lack thereof, her deliberate way of making decisions should lead to less confusion, provided she chooses good people.

In putting together her administration, Miss Megawati has a few good economic heads to rely on from within her own party, including Laksamana Sukardi, sacked by Mr Wahid. She has a good team of

advisers to draw on from outside the main parties, and was expected to leave one or two existing ministers in place as well, to provide continuity.

Investors will be watching these appointments to gauge how Miss Megawati is handling her rival parties. The horsetrading was evident during the heated battle for the vice-presidency, which ended on July 26th after three ballots. In the final round, Hamzah Haz, the leader of the moderately Islamist United Development Party, soundly defeated Akbar Tandjung, the speaker of parliament and the head of Suharto's old party, Golkar. That spares Miss Megawati from having to work openly with the symbol of past oppression. She can still expect trouble from Golkar, however, as well as from the staunchly Islamist factions that backed Mr Haz. Mr Haz himself said two years ago, when Mr Wahid pipped Miss Megawati to the presidency, that a woman was not fit to lead Indonesia. He then ran, unsuccessfully, against her for the vice-presidency.

Whatever team she puts in place, Miss Megawati seems unlikely to press hard for asset sales from the bank-restructuring agency, for deep cuts in subsidies, or for reducing the government's influence over small business and agriculture. It is hard to be enthusiastic, therefore, about Indonesia's economic prospects. But if she installs a united economic team and gives them solid support, her government might at least be able to get things moving again.

Her handling of the armed forces is likely to be similarly mixed. Her main advantage is her potential for restoring morale. The police force, especially, needs a boost if it is to rein in vigilantism and ethnic violence. Unfortunately, however, Miss Megawati is unlikely to press hard for badly needed reforms. Nor does she seem inclined to look hard at the armed forces' ugly past. That attitude could continue to complicate relations with America's Congress, despite the Bush administration's readiness to work with her. Most worrying of all, Miss Megawati is likely to take a harder line towards separatists in Aceh and Irian Jaya, making any lasting solution even harder to achieve.

Still, only a month ago it seemed as though Miss Megawati's greatest difficulty would be to take power without widespread violence. This week's transfer, in the event, was remarkably peaceful. And though still voicing his defiance, claiming that Indonesia will be “looted” by the new government, Mr Wahid implicitly acquiesced in the change on July 26th, leaving the presidential palace and travelling to America, ostensibly for health reasons. After such a smooth transition, Miss Megawati is entitled to feel relieved, whatever troubles lie ahead.

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Sri Lanka

The Tigers pounce

Jul 26th 2001 | COLOMBO
From The Economist print edition

The separatists strike close to home

EPA

IN THE early hours of July 24th, snoozing tourists awaiting their flights at Sri Lanka's only international airport, just outside Colombo, awoke to the sound of gunfire. Separatist Tamil Tiger rebels had audaciously attacked the airport and the neighbouring air-force base. When the smoke cleared, 13 rebels and five air-force staff were dead, and half the fleet of Air Lanka, together with eight military planes, had gone up in flames. This is a big coup for the rebels, and a huge embarrassment for the security forces, which failed to get wind of, let alone prevent, the attack.

It is also bad news for the country's already battered economy. The direct damage has been estimated at $350m, but the indirect consequences will be much more than that. The fresh surge of violence, the adverse publicity and the physical damage to the airport will severely undermine tourism—a crucial source of foreign exchange that had recently picked up. Sri Lanka's risk rating is likely to be downgraded, while foreign investors and fund managers will think harder before investing in the country.

The attack also strikes a deadly blow to an already faltering peace effort aimed at ending the 18-year civil war. Retaliatory air strikes were at once ordered against Tiger positions in the north of the country. Until now, President Chandrika Kumaratunga's strategy has been to push for a military solution while contemplating a constitutional reform that would provide the Tamil minority with more autonomy in the north and east of the country. Despite its large military superiority, however, the government has been unable to crush the Tamil rebels, while Norway's peace-broking attempts have foundered. Prospects for any kind of reconciliation now look more distant than ever.

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Japan's election

The price of fame

Jul 26th 2001 | TOKYO
From The Economist print edition

The opposition parties have struggled in their campaigns

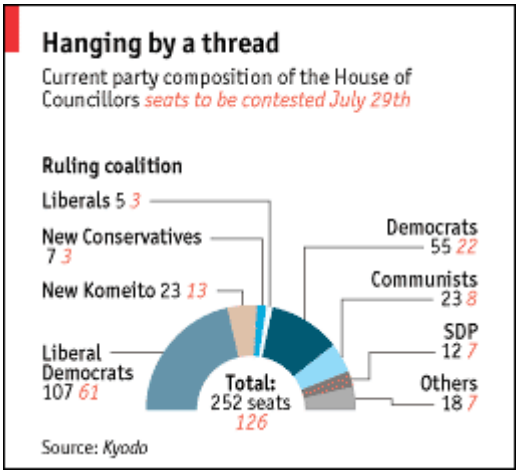
IT IS women's day for the candidates and supporters of Japan's biggest opposition party, the Democrats, and the campaign bus is out in Ginza, a posh Tokyo shopping district. On the open upper deck, Miyuki Hatoyama, wife of Yukio, the party leader, gives a punchy speech. The banners unfurl, the all-female brass band begins to play and, in the sweltering heat, Mrs Hatoyama starts to dance.

The campaign for the election to the upper house of parliament on July 29th has been taxing for Japan's opposition parties. Only three months ago, they were contemplating the real possibility of seizing power from the ruling Liberal Democratic Party, for only the second time since the LDP was founded in 1955. The opposition parties had agreed on their tactics: win control of the upper house, block all legislation (only the budget and foreign-policy legislation can be enacted without the approval of both houses of parliament), force a general election and remove the LDP from office. In those three months, however, Junichiro Koizumi, the LDP's new leader, has pulled off a remarkable reversal of fortune.

It has not all been one way. As campaigning drew to a close this week, the signs were that Mr Koizumi's extraordinary popularity was at last beginning to flag. On his return from Europe, where he had wrestled with the G8 summit and the Bonn meeting on global warming, Mr Koizumi was greeted with more bad economic news. On July 23rd the stockmarket hit a 16-year low.

The wounds do not appear mortal, however. The latest opinion polls still put the cabinet's approval ratings at over 70%, up from the single digits it enjoyed before Mr Koizumi took charge. Even among the Democrats' supporters, over half say they support Mr Koizumi. With their cameras and their flags, the voters have come in their tens of thousands to hear Japan's celebrity prime minister speak. The opposition has tried to pick its targets carefully: global warming, a controversial visit to a nationalist shrine and the unequal place of women in society. But none of these looks like a big vote-winner, and the government's equivocation on the Kyoto protocol ended with a compromise in Bonn that should please voters.

Mr Koizumi already has a record five women in his 18-member cabinet, including his entertaining foreign minister, Makiko Tanaka. The Democrats, by contrast, look more than a bit old-fashioned. Mrs Hatoyama is not standing for office. As a good party wife, she is campaigning for the Democrats' Tokyo candidate, Kan Suzuki—who happens to be a man.



The real question is how Mr Koizumi's popularity translates into votes for the LDP. His proposition to the voters is admirably clear, but it is by no means straightforward. Vote for me, says Mr Koizumi, and you will give me the mandate to reform my party, from top to bottom. Yet to retain power, he needs not just personal popularity, but a convincing majority in parliament. And that means getting LDP members elected.

Unfortunately for Mr Koizumi, the LDP's candidates hardly suggest the party is changing. Of the 75 hopefuls, 19 are former bureaucrats and 53 have made public their factional loyalties, despite Mr Koizumi's plea for all candidates to abandon the LDP's faction system, which gets the blame for some of the party's most backward habits. Among those standing for the LDP is a candidate supported by Taiju no kai, a powerful lobby group that protects the many privileges of the publicly-owned post office and its workers. Mr Koizumi is quite insistent about the post office: he wants

to break its power over the party and privatise it.

In fairness, Mr Koizumi could not have done much about these awkwardnesses. Most of the LDP's candidates were picked before he took over. But the broader point remains. If the voters return politicians like the Taiju no kai candidate, the LDP could claim it has a mandate to ditch Mr Koizumi and all his proposals for change.

Faced with Mr Koizumi's daunting popularity, however, the opposition seems to have given up on the niceties of political debate. The LDP, say the Democrats, is taking the country for yet another ride, handing out Koizumi posters and pendants and T-shirts simply so it can cling to power. At the Democrats' rally, Mrs Hatoyama does her best, but the crowds are thin. Most, it turns out, have come to watch the famous Mullion building clock strike the hour. The real star is elsewhere.

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India

A leader in waiting

Jul 26th 2001 | DELHI
From The Economist print edition

India's hardline home minister, L.K. Advani, is growing stronger

Get article background

Reuters

Advani, man of saffron

PERVEZ MUSHARRAF, the self-styled president of Pakistan, is widely seen in India as having got the better of Atal Behari Vajpayee, the prime minister, at this month's summit in Agra. He almost got him to sign a draft declaration that omitted all reference to Pakistani-sponsored cross-border terrorism in Kashmir. Lal Krishna Advani, India's home minister, is winning plaudits as the man reputed to have killed the draft. As a result, the nationalist wing of the ruling Bharatiya Janata Party (BJP) now looks more than ever to Mr Advani to uphold its traditional values, which it feels are being eroded by the liberal wing headed by Mr Vajpayee.

Many in the party want Mr Advani to be made deputy prime minister. He is younger than Mr Vajpayee and in better health. Mr Vajpayee has looked bemused at recent public meetings: on one occasion he could not remember the name of his own foreign minister and had to be prompted. Though he looks likely to serve out the remaining three years of his current term, Mr Advani may well take over after that. That could mean a hardening of policy towards Pakistan.

Mr Advani was born in 1929 in Karachi, now part of Pakistan. In his youth, he became the local head of the Rashtriya Swayamsevak Sangh (RSS), a Hindu-nationalist organisation that later gave birth to the BJP. In 1990 he undertook a carriage ride through India to galvanise Hindu opinion in favour of pulling down a mosque at Ayodhya, and erecting in its place a temple to the Hindu god Ram.

The enthusiasm he generated enabled the party to win 120 seats in the 1991 election, and come within striking distance of power for the first time. But most Hindus were repelled by the destruction of the mosque in 1992. They voted the BJP out of power in three major north Indian states in the 1993 state elections, including Uttar Pradesh, the state in which Ayodhya lies. This showed that, though extremism had enabled the BJP to achieve critical mass, it had also become an obstacle to it attaining power in New Delhi.

At that point Mr Vajpayee's liberalism came to its rescue. He too had been a member of the RSS in his youth. But he had consistently opposed the destruction of the mosque at Ayodhya. He saw that the party could never come to power purely on the back of Hindu extremism: it needed to exploit other causes too. The RSS criticised this as dilution of the party ethos; Mr Vajpayee called it evolution. His tactics enabled him to cobble together a coalition government in 1998 and again in 1999.

The RSS now looks to Mr Advani to restore its old influence. Many observers have speculated that the BJP will at some point split, with the liberals and Hindu-nationalists going in separate directions. But the very fact that Mr Advani is now the heir-apparent gives hope to the disgruntled. They now plan to take control of the party from within.

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America and Asia

Travelling hopefully

Jul 26th 2001
From The Economist print edition

China and America are engaged in a love-in

IT MAY have taken him a while to get to what is, after all, home to half the world's population, but Colin Powell, America's secretary of state, was being given the full tour this week. After a brisk canter through Tokyo's government district, slightly strained by the fact that Japan had just left America isolated 178-1 by agreeing to the Kyoto Protocol, he was on his way to Vietnam, for the first time since he was there fighting the communists.

Then it was off to South Korea followed, on July 28th, by what was to be the meaty part of the voyage: a trip to Beijing, to prepare the ground for President George Bush's visit to Shanghai in October, the first American-Chinese summit of the new presidency. No doubt Mr Bush will find it politic to be a little less gushing in his assessment of Jiang Zemin, China's president, than he has been about Russia's Vladimir Putin. But there will be no disguising, in October or this weekend, the fact that Chinese-American relations have lately taken a sharp turn for the better.

Usually, incoming American presidents take a while to stop bashing China and start engaging it. With Mr Bush, that period has been notably brief. The spy-plane drama of April had the effect of knocking heads together right at the start, and placed China in the gratifying position of being treated as an equal by the world's hyperpower.

Since then, relations have grown ever warmer. America declined to sell Taiwan the most advanced weaponry on its wish-list; work on China's entry to the World Trade Organisation has intensified, with full American support; China was delighted that neither the administration nor Congress tried to block its successful campaign to win the 2008 Olympics. Mr Bush and Mr Jiang have even had a cordial telephone chat.

Plenty of pitfalls lie ahead, of course. One large one comes in the shape of missile defences. In Chinese eyes, plans to deploy a system that could knock out a limited number of incoming warheads are aimed at China just as much as at North Korea, and Mr Powell is certain to be lectured on the subject. China's large trade surplus with America is another perennial problem, as are human rights, especially this year, the 50th anniversary of Tibet's annexation. China attempted to smooth matters over by releasing three academics with American ties, all accused of espionage, just ahead of Mr Powell's arrival. This was a good example of how efficiently all differences are being brushed under the carpet—at least until the October summit is out of the way.

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China and Taiwan

Business trumps politics

Jul 26th 2001
From The Economist print edition

China's best hope for Taiwan is to wait patiently and welcome its business

HALF a century ago, Kunshan was a battlefield. In the final months of China's civil war, communist forces destroyed a force of some 2,000 demoralised Kuomintang troops there as they swept through the disease-ridden rural county about 55km (35 miles) west of Shanghai. Now Taiwanese electronics firms—the mainstay of the island's economy—are racing to move their production lines to Kunshan, carpeting its farmland with high technology factories.

Despite the occasional outburst of bellicose language from Beijing, and ritual military manoeuvres in the Taiwan Strait, China is concentrating on wooing the island's business people. It knows that high production costs in Taiwan are forcing the island's manufacturers to move elsewhere to stay competitive. The Chinese mainland is the obvious choice, with its vast potential market, cheap labour and cultural similarities. Last year Taiwanese government-approved investment in China soared by 108% to $2.54 billion. This was despite the freeze in political relations caused by the election to the Taiwanese presidency in March of Chen Shui-bian, a man detested by China because of his lack of enthusiasm for reunification. In the first half of this year, investment has grown by nearly 24% compared with the same period last year, with half of the money going into high-tech industries. Gone are the days when Taiwan saw China as little more than a place to make shoes and toys.

Taiwanese investment has shifted away from Guangdong and Fujian provinces in the south. Now it is mainly flowing into Shanghai and other parts of the Yangtze river delta, where technology-savvy workers are easier to find and transport to foreign and domestic markets is convenient. Kunshan is a striking example of this migration. More than 900 Taiwanese businesses have set up operations there, pledging investment worth over $5.4 billion, which is about a tenth of all the contracted Taiwanese investment in China according to China's figures. Many prefer Kunshan to the nearby cities of Shanghai and Suzhou because of its lower labour costs and less cumbersome bureaucracy. “People joke that Kunshan would be a ghost town if the Taiwanese pulled out,” says Ke Chang-Sheng, a Taiwanese manager at a huge, newly built, factory making displays for mobile telephones.

Taiwanese companies and businessmen account for over half of Kunshan's foreign investment. Kunshan has Taiwanese-style coffee shops, Taiwanese restaurants and pedlars selling *bing lang*, the mildly narcotic betel nut beloved of some Taiwanese men. Later this year it will open a school for Taiwanese children, free of communist indoctrination. Kunshan's luxury villa compounds are full of Taiwanese. The malaria, snail fever, cholera and other diseases that once ravaged the area are now a distant memory. The bright lights and racy night life of Shanghai—itself now home to an estimated 200,000 Taiwanese—are a short drive away.

As for politics, China's policy is one of “don't ask, don't tell.” Taiwanese businessmen in Kunshan say officials they meet do not try to discover whether they support President Chen. The businessmen, in turn, are usually careful not to get publicly involved in debates about the politically and emotionally charged issue of reunification. China knows that no matter what the political background of Taiwanese investors, all of them want the Taiwanese government to lift its restrictions on economic dealings with the mainland (such as the $50m ceiling on investment projects). They also want an end to the five-decades-plus ban on direct transport links between China and the main island of Taiwan. So does China. “The later you leave it, the worse it will be for Taiwan,” says Cho You Haw, the manager of another Taiwanese factory in Kunshan.

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Nigeria's economy

More pain, little gain

Jul 26th 2001 | LAGOS
From The Economist print edition

The world wants President Obasanjo to succeed, but he is failing to make the economy work

Get article background

ONE of the African leaders presenting the African Initiative, an economic recovery plan, to the G8 summit in Genoa last weekend was President Olusegun Obasanjo of Nigeria. The plan promises better economic policies for Africa, but in his own country, two years after he took power, Mr Obasanjo does not seem to be following them.

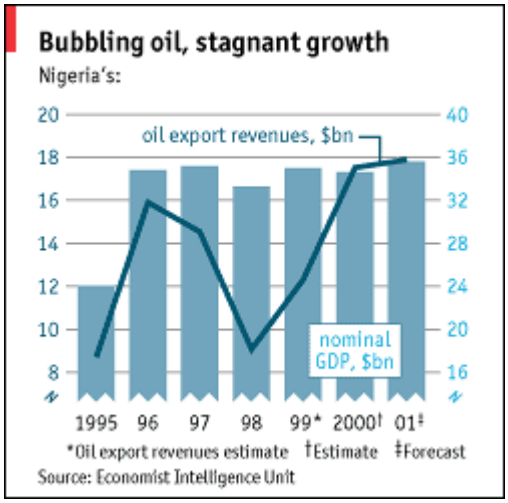
According to Mr Obasanjo, economic reform is under way. Nigeria, a pariah when it was under military rule, has become at least semi-respectable. The unbridled theft of public funds has stopped. Foreign-exchange reserves, down to $3.9 billion in May 1999, now stand at over $10 billion—about a year's worth of imports. State-run companies are to be sold off. Nigeria has an agreement with the IMF that it is seeking to extend and it is talking to the Paris club about the $30 billion it owes governments.

Mr Obasanjo likes to travel the world spreading the good news. He can also point to the startling rise of the Lagos stockmarket as evidence of new confidence in Nigeria. Since September 1999, when it stood at 4,870, the exchange's index has climbed steadily, reaching an all-time high of 11,053 last month. Even after taking into account the slide in Nigeria's currency, the naira, this is a welcome turn for investors.

But most Nigerians are not investors. Outside the stock exchange, sellers of *garri* and *fufu*, two staple foods, are grumbling. Their prices have doubled in six months. After two years of Mr Obasanjo's rule, most feel life has grown harder.

Are they right? Nigeria's economic output has risen slightly, but only because of the higher price of oil. Other sectors are stagnant. The population, estimated at about 122m, is increasing almost as fast as production, so Nigerians are not, on average, getting richer. The stockmarket is doing well partly because the government has been printing so much money, partly because companies were under-valued. No one had confidence in Nigeria under military rule, but now there is a glimmer of hope that things could improve.

In fact, Nigeria's businessmen are no happier than the street vendors. Electricity, telecoms and the state of Lagos port, their three essentials, are in a mess. NEPA, the awful state-run electricity company, made yet another promise last week. From next month, it will guarantee a “premium service” for a group of 50 big companies in Lagos—22 hours of power a day. Few, however, expect the pledge to be kept. Even if it is, it will help only the select 50, not the vast majority of smaller businesses.



NEPA's performance today is barely better than it was when the generals left office in 1999. Its ambition is to double output by December, but that would still be far short of what is needed. Nigeria has three times the population of South Africa, but produces only one twentieth of the power. A privatisation bill, promised for last December, is still awaited.

NITEL, the state-run telecoms company, is in an even worse state. This week it began a desperate drive to grab cash before private competition starts up later this year. It is cutting off scores of subscribers and forcing them to pay reconnection fees or inflated bills. Next month two foreign-owned mobile-phone businesses will be launched and in September a majority stake in NITEL is up for grabs. Perhaps a decent telephone system will eventually emerge, but for now telephoning in Nigeria is a nightmare.

At Lagos port, the third crucial lifeline for business, a combination of a new import-inspection regime, a surge in demand and continuing building works has resulted in a line of containers stacked up four high and 16 wide, running for miles while they wait to be checked through. Out at sea a line of ships similarly waits to dock. Not surprisingly, shippers impose a fat surcharge to compensate for the delay.

Most outsiders want to give Mr Obasanjo, a decent man who came to power via the ballot-box, a chance. But Nigeria's economy is not healthy. Money supply, the central bank admits, is out of control, having risen by 43.5% last year and 27% in the first five months of this year, against a target this year of 12.5%. Much government spending is wasteful: $350m is to go on a sports stadium in Abuja and $93m on a “space programme”. Spending on health and education is lower as a proportion of the budget than it was under the two previous military regimes.

The overspending has fuelled 23% inflation, clogged up the port with luxury imports for the rich and brought the naira down from 80 to the dollar in 1999 to a rate on the street of 135. Straightforward theft of public funds has diminished, but corruption has not. Many government contracts are still awarded dubiously. The conduct of privatisation is far from open, as the French government noted this week.

The IMF is under huge pressure to keep Nigeria's first elected leader for 15 years afloat, but with its targets consistently missed, IMF officials are wondering how long they can support him. What an example for the rest of Africa.

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Congo

Is the world soft on Kabila?

Jul 26th 2001 | KINSHASA
From The Economist print edition

Outsiders see Joseph Kabila's good side. At home, critics ask who voted for him

Get article background

EPA

The smile wins friends

DURING his first six months in power, the citizens of Congo's capital, Kinshasa, showed little love for President Joseph Kabila. They called him José Moke—Little Joseph—because he was young (about 30) and had become president only because his predecessor, assassinated in January, was also his father, Laurent. He grew up outside Congo and does not speak Lingala, the language of the capital. But at a recent rally José Moke uttered his first Lingala words in public, to appreciative cheers. He flashed a winning smile and hearts melted a bit.

Since taking over, Mr Kabila has pulled Congo out of its diplomatic isolation and re-engaged it in a search for peace that his father had turned his back on. As a result, a bit of life has been breathed into the peace accords signed in Lusaka in 1999. A relieved outside world seems to think that justifies overlooking Mr Kabila's undemocratic route to power.

Most western governments think the young Kabila has done other things right, too. He has liberalised the economy, lifted foreign-exchange restrictions, floated the currency and ended a diamond monopoly. He has scrapped a law regulating political parties and indicated that he wants more respect for human rights. All in all, the view is that he is better than his father and should be given a chance.

Opposition groups at home, however, some of which are armed, resent this new respectability. Jealousy? No doubt. But they can still cause trouble. For example, when the Belgian government said it would resume aid to Congo, the opposition parties joined forces for once, and accused Belgium of wanting the division of the country and undermining the Lusaka accords. They more or less backed down later, but there is still a feeling in Kinshasa, not confined to the opposition, that outsiders are too indulgent towards Mr Kabila.

One legitimate worry is that too many chums of the old Kabila are still in place, and their corrupt habits continue unchecked. Some Congolese recall the unquestioned support western governments gave to the young Mobutu Sese Seko in the 1960s, helping keep the brutal kleptocrat in power for decades. There was no alternative, it was said then, and a strong man was needed to hold Congo together. Some fear history may now repeat itself.

The critics point out that political parties must still register with the government before they may operate again, and human rights are still widely ignored. This week dozens of policemen were sent to break up an opposition press conference. Those who want democracy look forward to the national political dialogue promised in the Lusaka agreements. This should bring together the government, the unarmed opposition and the rebel groups. Mr Kabila, they argue, must be involved in this dialogue. He must also take part in a presidential election. He must not be indefinitely accepted as de facto head of state without the approval of the people.

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Eastern Congo

In limbo

Jul 26th 2001 | RUTSHURU, NORTH KIVU
From The Economist print edition

Rwanda's vain attempt to suppress rebels based in eastern Congo

WHEN Rwandan soldiers cross the border in the mountains of eastern Congo to hunt Rwandan rebels, they look for tracks through the undergrowth with trails of spilled potatoes and discarded maize cobs. Sometimes the corpses of militiamen can be seen surrounded by sacks of beans turned into makeshift rucksacks with a couple of rope loops.

The hunted men have been sent down from the Virunga volcanoes to loot food for their fellow fighters hidden higher up. Life on the upper slopes is hard. The cold is bitter at night, and some flanks of the mountains have no water. The only food is what can be stolen lower down.

These are *Interahamwe*, Rwandan Hutus, some of whom are hardliners who helped to carry out the 1994 genocide and others mere children recruited forcibly among Rwandan refugees in Congo. Rwandan commanders reckon that about 30,000 Rwandan rebels were based in eastern Congo. Now they think nearly half have been killed or captured, or have given up. Some captured *Interahamwe* say they were living with their families in villages. Others say they have been in the forests since the refugee camps were destroyed by the Rwandan army in 1996.

Beneath the volcanoes' cones that push into the clouds, lush meadows of wild flowers look like a tourist paradise. But people here live in fear. One local man recounts how he was approached by *Interahamwe* militiamen who demanded money. When they found he had none, they placed his hands on a plank, chopped one off at the wrist and cut four fingers from the other. These days he can only beg. His farm has reverted to bush.

Cows, once the main form of wealth, have been wiped out, all of them stolen and eaten by invaders, say local people. And the villages are still frequently attacked by the *Interahamwe*.

There are schools and health care of a sort. But the villages are controlled either by the Rwandan army, whose priority is to ensure the security of Rwanda's own borders rather than the administration of the local area, or by *Interahamwe* militiamen, who want to use Congo as a base from which to attack Rwanda and overthrow President Paul Kagame's Tutsi-led regime. Neither group is interested in building up a local economy or administration. People survive either from agriculture or from small-scale mining of gold or colombo-tantalite, an ore used in mobile phones that makes its way to the outside world through Uganda or Rwanda.

Farther south the area is even more insecure, since the local militias, known as Mai Mai, are notorious for changing their allegiance. The Mai Mai militias began as self-defence forces, but are now simply roving bands of thieves and thugs, often under the control of warlords of no particular politics or loyalty. They sometimes co-operate with the *Interahamwe* to fight against the Rwandan army. The Rwandans claim both they and the *Interahamwe* are still receiving help from the Congolese government in Kinshasa.

This part of Congo—the provinces of North and South Kivu—was once part of a Rwandan kingdom and it is hard to imagine its ever being linked to the rest of Congo again. In many villages people speak Kinyarwanda rather than the *lingua franca*, Swahili. The Kivus used to be prosperous—either because of or despite having had little interference from central government for decades. The volcanic soils of North Kivu are fertile and the roads are still good enough to allow farmers to send their produce to local markets.

According to the Lusaka peace accords, signed in 1999, Rwanda must withdraw its troops from Congo and the *Interahamwe* and Mai Mai militias must be disarmed. Unlikely. More probable is a long war of

attrition with the Rwandan army suppressing the rebels but never defeating them, as long as they can hide in the mountains and forests of Eastern Congo. One day, however, Rwanda may end up administering the provinces of North and South Kivu.

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Drought in Iran

Careless in a dry country

Jul 26th 2001 | TEHRAN
From The Economist print edition

Lack of planning means that Iranians are caught by surprise

THE *qanats*, which for centuries channelled sub-surface water to Iran's countryside, are drying up. Destitute farmers are migrating to the cities, where even drinking water is running low. Rasoul Zargar, the country's top water official, says that only “the mercy of God” can put an end to a three-year drought that has seen rainfall drop more than 30% below the average, and cost the economy an estimated $2.6 billion in the past year. No doubt, but human folly has done its bit too.

People in the capital, Tehran, says Mr Zargar, must consume 15% less water than they usually do—about 130m cubic metres a year—if they are still to have enough to drink at the end of the summer. But at least twice that amount leaks out of the pipes, and only 1-2% of these leaks are staunched each year.

To prevent Tehran's buildings sinking into the sodden earth—to which the cracked sewers contribute—the authorities pump around 100m cubic metres of water into surface channels, whence it runs into the desert and evaporates. Two recycling plants are currently being built, but the processed water has been earmarked for farmers, and squeamish consumers may well balk at drinking it.

The government was lulled by plentiful rain last autumn. It was not until June that officials went on television to announce a campaign to reduce consumption, which they did from the surroundings of lush, waterlogged gardens. Residents, not understanding, responded limply. There were sporadic cuts to houses and offices, but municipal gardeners can still be seen spraying parks and verges.

For a dry country that has suffered 13 drought years in the past 20, there is a surprising lack of co-ordinated planning. Putting iron and steel plants in the central city of Isfahan generated employment, but water to cool their generators has to come from the Zayandeh river, which dried up last year and now trickles forlornly. In the bits of Isfahan province that are not parched, farmers draw water from ever-deeper wells so they can grow rice. Few have followed the advice to switch to wheat, which needs less water and which Iran last year imported in huge quantities.

Thanks to evaporation, leaks and thirsty canal-side weeds, some 65% of irrigation water never reaches the crops for which it is intended. Mr Zargar promises more dams to make use of the rainwater that falls on Iran's two big mountain ranges. But progress will be slow: institutionalised hostility to foreign investment means the government will have to finance almost all the dams itself.

The best way of cutting consumption would be to raise the price of water, but this idea has been barely mentioned. Mini-riots have broken out in various places, including Isfahan, and the government is determined to avoid more. So officials press on with the campaign of public awareness, which no doubt will be forgotten as soon as the first showers arrive.

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Whales

For watching or eating?

Jul 26th 2001
From The Economist print edition

Neither side gives ground in the battle over commercial whaling

THE battle for the whales resumed on July 23rd at the annual meeting of the International Whaling Commission (IWC) in London. Predictably, the gap between the killers and the savers failed to narrow. On one side are Japan, Norway and Iceland and their followers, which argue for an end to the 1986 moratorium on commercial whaling. It was designed to let the dwindling whale population recover. Now, they point out, some species of whale are not endangered and a few minke whales in particular—whose population is put at over 1m—could be caught.

These countries also argue that culture and tradition should allow them to maintain their whaling industry and their whale-eating habits. Most other countries, not to mention environmentalists, are unimpressed. This has caused diplomatic strains. This month Britain banned Norwegian whale-survey ships from its waters. A few months earlier Norway was fiercely criticised when it said it wanted to resume exports to Japan of whale-blubber, types of which are considered a delicacy there.

Japan is also in trouble. Last September the United States stopped its fishermen entering American waters. Under IWC rules, whales can be caught for research purposes, but Japan has been accused of using science as a cover for hunting whales ultimately destined for Japanese plates. Japan's recent decision to allow fishermen to kill and sell whales caught by mistake in their nets has done little to appease critics. But things took an even nastier turn when Masayuki Komatsu, the head of Japan's fisheries agency, admitted just before the opening of the IWC conference that Japan had been using international aid to persuade some Caribbean countries to take its side on whaling issues. About a third of the IWC's 37 voting members appear favourable to Japan and Norway.

Mr Komatsu's reference to minke whales as “cockroaches of the ocean” has not helped either. Both sides dug their heels in further when the IWC would not grant voting rights to Iceland because it refuses to recognise the moratorium. This is a setback for Norway and Japan, which need the support of at least 75% of the IWCI's members to get the moratorium lifted.

Whale-lovers try to persuade Japan and Norway that it is better to watch whales than eat them. They point out that the whale-watching business is worth $1 billion a year. A slice of that would surely be nice.

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After the Genoa summit

Picking up the pieces

Jul 26th 2001 | MILAN
From The Economist print edition

AP

The violence at the G8 summit shocked the world, as it shocked the summiteers. It shocked Italians even more

FOR all but the anarchists and sundry Marxists for whom worse means better, and for the plain thugs, it was a disaster. Last weekend's G8 summit in Genoa saw two days of violent riot and police reaction that left one rioter shot dead, maybe 300 people—about two-thirds protesters, one-third policemen—with injuries, and unquantified damage to businesses, buildings and other property. The protesters who had come for umpteen virtuous causes, mainly poverty-related, found their messages drowned in the chaos. The summiteers, representing the seven richest industrial countries and Russia, had little to offer but a pledge of anti-AIDS money for Africa, and nothing for their own satisfaction but an assurance from Canada that next year's G8 meeting, which it is due to organise, would be far smaller and held in a remote resort in the Rocky Mountains.

And the Italians, who had played host? While the world fairly soon looked elsewhere, they were still in shock, and fierce recrimination, this week. By Sunday Genoa looked like a war zone. Italy has not seen violence like this in decades and, for all the foreign trouble-makers, plenty of Italians were among the rioters. It was a frightened 20-year-old member of Italy's (paramilitary) carabinieri who had shot and killed a 23-year-old protester, also Italian, who was about to hurl a heavy fire-extinguisher into his jeep, trapped by a mob.

That shooting could be understood. The security forces found much less sympathy for their ferocious night-time storming of a school being used as a headquarters by the protesters, and suspected of being also a haven for the thugs. Many blameless people, including watching journalists, were beaten up. Images of this and other blood-soaked scenes have filled television for days.

Predictably, the politicians, who—government and opposition alike—failed to foresee just how bad things would get, are now at each other's throat. The interior minister in Silvio Berlusconi's centre-right government, Claudio Scajola, who happens to come from the Genoa region, told parliament that the events could “be blamed on a precise strategy of certain subversive groups, that were favoured by a climate of verbal violence built around the G8”. No doubt, but plainly the government misjudged the scale of the protest. The left accused it of concentrating on trivia such as its ban on hanging laundry out of windows—as people in sunny and breezy Genoa often do—rather than security. The idea of creating an off-limits area, to be defended at all costs, was two-edged: the fence worked, but it gave the protesters a target, and an objective, to get inside.

The government, though, seems to be in tune with the nation. Polls suggest that Italians blame the

protesters more than the police. Mr Berlusconi is nonetheless upset. Apart from what it meant to Italy, the violence spoiled what was meant to be his own first moment of international glory. The left is divided, and embarrassed. Blame the police as it may, it was a centre-left government, in power until May—indeed, formally until June—that picked Genoa for the summit, and planned the event. But, after losing the election on May 13th, many left-wing politicians started to back the protesters' umbrella organisation, the Genoa Social Forum.

The forum included, among others, anarchists, post-punks, ex-hippies, left-wing Catholics, peace groups and many unreconstructed communists. Fausto Bertinotti, leader of Communist Refoundation, was in Genoa repeating that a “new political generation is being born”; when the protests turned nasty, he just blamed the police. The main parties of the left, Francesco Rutelli's Margherita (Daisy) and the Democrats of the Left, tried to distinguish between good protesters, the angry but not so-violent *tutebianche* (white overalls, the colour of the ones they wore), and the nasty, destructive *tute nere*, wearing black, many of them foreigners.

The left reveals its colours

Italy, after a week, is still trapped in this chromatic debate. It could usefully look more widely. The protesters received support from across the left. Mr Rutelli tries his best to forget this. But subtle distinctions between the various groups, and finger-pointing at the police, do not hide a fact: the culture of the Italian left is largely against capitalism and the market—and America, which represents both. The days when centre-left governments led by Romano Prodi, Massimo D'Alema and, most recently, Giuliano Amato supported Tony Blair's or Gerhard Schröder's “third way” (or NATO's war in Kosovo, for that matter) seem far away. Mr Amato and Mr Prodi, among others, are embarrassed by this, but it is obvious that the bulk of the left has deserted them.

This, in coming months and years, will play into the hands of Mr Berlusconi, who will dominate the political middle ground, and will strive to be seen by Italy's international partners as the only reliable force in the country. George Bush has already welcomed Mr Berlusconi's support for his missile-defence plans.

And the rioting in Genoa, though it was not due only to Italians, may well have deep consequences in the country. The slogans, the letter-bombs, the violent tactics and much of the indulgent comment of the intelligentsia remind many Italians of what happened in the 1970s. What began then with angry slogans against multinational companies evolved into street clashes and ended in terrorism, which left many dead and deep political scars. This must not happen again.

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France's Muslims

The melting–pot that isn't

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They are perhaps 5m among 60m, and most are near the bottom of the heap

Reuters

Zidane, national hero

WITH the red thread of the *légion d'honneur* discreetly peeping from his lapel, Dalil Boubakeur, rector of the Grand Mosque of Paris, toes a careful line: “We're in a new phase. There is a good hope that Islam will be respected, accepted and, most of all, tolerated, not—as in the past—treated with mistrust.”

Really? According to opinion polls, almost two-thirds of French adults believe there are too many Arabs (and therefore Muslims) in France. The xenophobic extreme right, even as it splinters into squabbling factions, is still strong in regions with large Arab populations. And the bleak housing estates that encircle French cities have become the equivalent of the United States' inner-city ghettos—places of high crime, unemployment and ethnic minorities, to be shunned by the white majority.

No wonder: over the Bastille Day weekend, in the Paris region disaffected young people from estates like these, many of them of Arab origin, celebrated by setting fire to more than 130 cars. A few Arabs have made it: Zinedine Zidane, star of the French team that won football's latest World Cup, became a truly national hero. But even more so an Arab-French one, and he is the odd man out. Whatever the rector's hope for the future, the present is a problem.

How big a one is hard to say. France officially refuses to identify its residents by race or religion. That would affront the French republican notion that a melting-pot should produce a single stew, as, by and large, did earlier waves of immigration in the past half-century from Eastern Europe, Portugal and Italy. And, these days, some fear it would be the start of a slippery slope towards American-style “affirmative action”. However, estimates suggest that of France's 60m residents 4m-5m are Muslim by background, if not by actual religious practice; and of these between a third and a half are French citizens, mostly the French-born children of immigrants who have not obtained French nationality.

By place of origin or ancestry, almost 3m are North African. Of these more than 1.5m are of Algerian origin (including perhaps 450,000 *harkis*, Algerians who fought for the French in Algeria's bloody war of independence, or their children). Next come 1m of Moroccan origin and 350,000 of Tunisian origin. There are perhaps 315,000 of Turkish descent, and some 250,000 from Africa south of the Sahara, with 100,000 from Lebanon and the rest of the Arab Middle East. So it is not surprising that white Frenchmen—the *Français desouche*, Frenchmen of French stock, as the extreme right calls them—equate Muslims with North Africans.

Given France's colonial history, that equation is an unhappy one. Although immigration from North Africa is a century-long phenomenon (170,000 Algerians and 130,000 Moroccans were recruited to fight for France in the first world war), what sticks in the memory is the bitterness of the Algerian war of 1954-62, when Frenchmen and Algerians killed and tortured each other with enthusiastic brutality.

And the violence was not only in North Africa. In 1961, the Paris police, reacting to the murder of more than 20 of their colleagues over the preceding weeks by Algerian extremists, attacked a peaceful march by Algerian demonstrators and dumped some 200 bodies in the Seine.

On top of the colonial legacy, other things worsen the position of France's Arabs. One is the establishment of virtual ghettos, be these either the tower-blocks of the suburbs, built from the 1950s

onward with the noble intention of providing cheap housing for migrants and other new city-dwellers, or the squalid medieval centres of towns in the south such as Carpentras. Another is the intensely competitive nature of French education, which inevitably puts at a disadvantage children from poor, non-French-speaking backgrounds. Widad, a 25-year-old secretary of Algerian origin, notes that when she was a schoolchild in Les Yvelines, in the Paris suburbs, four-fifths of her class were North African—and only a handful went on to study for the baccalaureate, the school-leaving certificate that is the essential passport to a university or a reasonable job.

Turning to Islam

All too often the *beurs*, as they are known, the French-born children of immigrant parents, find themselves marooned between two cultures, unable to adapt to their parents' values and unable also to succeed in France. Is that why, as a report to the prime minister noted last December, the *beurs* are increasingly turning to Islam, not as a matter of faith but as a symbol of identity? For example, they fast during the month of Ramadan, or insist on religiously correct food in school canteens. In the Edgar Quinet school, in the depressed heart of Marseilles, all the pupils are Muslim, and almost all—some no doubt only from peer pressure—observe Ramadan and stay at home during the big Muslim holidays. As Widad says: “They want to claim a culture they haven't experienced.”

Not that experiencing it to the full is easy. France is a secular republic, respecting all faiths but supporting none. Fair enough, but it means that the Roman Catholics, who for centuries did benefit from the public purse, have around 40,000 churches, whereas the Muslims, the next largest religious group, have only 1,550 mosques or prayer-rooms, of which only 13 are big enough to take a thousand or more at Friday prayers. With some justice Muslims complain that local mayors, bowing to the prejudices of the majority, refuse to grant building permits.

The mosques that do exist are heavily dependent on foreign support. In the Paris suburb of Evry-Courcouronnes, the mosque is helped by Morocco and Saudi Arabia; its counterpart in Mantes-la-Jolie was once dependent on the Libyans, but is now financed by the Saudis and other Gulf Arabs. According to a 1990 study, of 500 full-time imams in France 40% were from Morocco and 25% from Algeria.

What worries the pessimists is that a sense of Muslim identity will ultimately produce a kind of apartheid. That was why in 1989 a Paris headmaster expelled three Muslim schoolgirls for wearing headscarves—symbols, he argued, of a religious proselytism that is illegal in state schools. The Socialist education minister of the time, Lionel Jospin, now prime minister, argued for tolerance, only to be contradicted five years later by his conservative successor, who argued that any “ostentatious” symbol should be banned. That led to the expulsion of another 80 girls. Today the situation is sensibly vague: the scarf can be worn as long as it is not provocative—which means that few Muslim schoolgirls bother to wear it.

The rector of the Paris Grand Mosque is not among the pessimists. Islam in France, he argues, has been passing through several phases: immigration; adaptation; crisis, especially for the young; and now, he says, “insertion, integration and normalisation”. *Insha' Allah.* In the meantime, the pessimists, the far right or merely unhappy *Français de souche* might do well to recall the words of a previous rector: “To open a mosque is to close a prison.”

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The European Union and its public

Heart attack? Here's an aspirin

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The commission wants to make the EU easier to understand. Some hope

LITTLE is simple in the world of the European Commission, the policymaking bureaucracy at the heart of the European Union. A visitor entering its headquarters on Avenue Auderghem in Brussels might innocently assume that he had entered on the ground floor. Not so. Step into the lifts and you will discover that you are actually on the fifth floor. Proceed to one of the commission's offices and start discussing the EU's policymaking process, and the sense of disorientation grows.

But—oh, happy day—all this is about to change. Perhaps. On July 25th the commission released a document discussing how to make the operations of the EU more comprehensible and open to ordinary Europeans. Introducing the paper, Romano Prodi, the president of the commission, said his aim was to "re-establish contact between the European Union and its citizens". Citing Irish voters' recent rejection of the Nice treaty in a referendum, the poor turnout in European elections and the demonstrations at last weekend's G8 summit in Genoa, Mr Prodi lamented the gap between politicians and citizens throughout the West, and admitted that it was "particularly acute" in the case of the EU.

A big problem, then. Alas, the commission's proposals are unlikely to solve it. They concentrate on the micro-management of decision-making procedures, not on the big political issues. As one commission official puts it: "This is not about a final political settlement for Europe. It's about things like making sure that you know the names and phone numbers of the people giving veterinary advice."

To be fair, it is more than that. The commission wants to see outside groups more involved in the EU's policymaking. These would include regional and local governments, and of course (what else these days?) non-governmental organisations. The commission also wants to simplify the existing body of EU law and to speed up legislation. It suggests that officials and diplomats in Brussels should refrain from loading EU directives with unnecessary trivia. Instead, Brussels should concentrate on framework legislation, and leave national parliaments to fill in the details.

The commission also says it wants language that is readily understandable by the general public. Easier said than done. A couple of pages later it talks of using a full range of policy tools such as "regulations, framework directives, soft law and co-regulatory mechanisms".

One reason for the commission's congenital inability to make itself understood is that it is staffed by officials whose careers depend on communicating not with voters but with other officials. So desiccated jargon drives out plain language, even before it passes through the translation mill, which grinds everything into a sort of bureaucratic Esperanto.

But there are deeper reasons. The kind of things that give life to politics at a national level—popular personalities, real political parties, humour, national media—are absent at the EU level. The EU has process aplenty, but even that is hard to understand and explain because the institutions are strange. Nothing in any European country corresponds to the commission, a curious hybrid of a civil service and an executive. The European Parliament too is a strange beast, since, unlike other parliaments, it cannot make laws, only amend or block them. So is the Council of Ministers, which brings together senior national politicians, guided by committees of powerful officials, who then make EU law together. The council is therefore regarded as the EU's main legislature—but one that legislates in secret, as if the EU were North Korea, a point that the commission's new paper does not make.

The EU also lacks the clear division of responsibilities and powers among different branches of government that is often regarded as basic to a democracy. The emergence of legislation from the three institutions—commission, parliament and council—is complex, and varies from subject to subject. Mr

Prodi says he wants “more clarity about who does what”. But creating a simpler and more comprehensible division of powers would be hard: the current arrangements reflect a series of hard-fought political bargains.

In sum, the commission's aims are good and its ideas could do good. But not much. The EU is hard to understand because it is what it is. Even implemented in full, the ideas could not get round that.

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Autocracy in Belarus

Challenged, feebly

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President Lukashenka has worries. But he can probably hang on to power

Reuters

Lukashenka has earthly helpers too

HE HOLDS all the levers of power. The opposition is weak. He even enjoys a kind of popularity. But for all that, Belarus's volatile and heavy-handed leader, Alexander Lukashenka, is looking troubled as the presidential election on September 9th draws near.

His first worry is that two top security people have defected to America, with documents that appear to show that the Belarussian authorities have been murdering people, chiefly former allies who had switched to the opposition. The disappeared (no bodies have been found) include a former interior minister and a television cameraman who used to film official events. The wives (or widows) of five of them have been touring the world's capitals demanding justice.

The authorities have charged four former members of an elite anti-terrorist unit as a result. But two key witnesses have died mysteriously, and few people expect that truth will out. Mr Lukashenka's lot say the defection was staged by western intelligence services. They also claim that foreign spooks finance the opposition.

If so—it is quite likely—western taxpayers have not yet visibly been getting value for money. But now the opposition has at last united around a single candidate, a worthy trade-union leader called Vladimir Goncharik. It is still weak, though, and he stands little chance if the election is rigged. On past form it will be. And the media, under heavy state control, will not be telling voters tales of official miscreancy.

The one thing that could change this is Mr Lukashenka's second big problem: Russia. The days of boozy backslapping in the Kremlin are long gone. President Vladimir Putin and his government regard the Belarussian leader with thinly veiled disdain. Last month Mr Lukashenka had to make a grovelling apology to the Russian prime minister, Mikhail Kasyanov, after publicly insulting him. The much-touted union of Russia and Belarus has bogged down.

Russia could easily pull the rug from under Mr Lukashenka if it wanted. Russian television, widely watched in Belarus, recently broadcast a programme on the disappearances and the alleged presidential death-squad. The authorities in Minsk reacted by taking Russian broadcasts briefly off the air “for technical reasons”. That tactic cannot be used very often. And there is other compromising material around too, such as documents about the beneficiaries of Belarus's murky arms sales.

The big question is whether the media salvoes from Moscow will now fizzle out, or turn into a full propaganda onslaught, as Mr Goncharik says he has been promised. If it turns out that Russia is settling for the status quo, the main reason is probably money. Russian companies are eyeing the best bits of the Belarussian economy, such as the potash industry and the energy companies. Privatisation on easy terms to Russian buyers after the election may be the price for a hands-off policy now.

What ought to be Mr Lukashenka's biggest worry seems to bother him least. His country is a shambles, and it is largely his fault. The economy staggers on thanks only to cheap Russian energy. Foreign investment is minimal (the last remaining British investor, a toothbrush company, has just closed its plastics plant, after a year's frustrating battle with bureaucracy and political interference). Mr Lukashenka stays in power thanks only to a bloated security service and the passivity of the population. Even his own officials wince at his erratic public behaviour.

So the outside world too has worries. Bodies such as the Organisation for Security and Co-operation in

Europe normally send observers to elections in ex-communist Europe. But Belarus's parliamentary one last year was so bogus that they sent only “technical” monitors, and so far western observers have been refused entry for the vote in September. Even if Mr Lukashenka relents, would it be worth sending monitors too late to get properly organised? What use are the promised Russian ones? And how should Mr Lukashenka be treated if he wins? Isolating him drives Belarus even closer to Russia. Switching to a more friendly stance would betray the opposition, which may already feel pretty let down after the election, if western help proves to have made little difference.

Optimists hope that the opposition's new-found unity heralds a new era. But the best hope for change is pressure from Russia. Yet if Mr Putin does not dump Mr Lukashenka now, when he is at his most vulnerable, why would he do it at all?

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Macedonia's rebellion

Talking or fighting?

Jul 26th 2001
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Both, this week. And the government is dubious of NATO's path to peace

Get article background

EPA

Police duty, Macedonian-style

EVEN by the standards of the Balkans, the contrast between rhetoric and reality was striking. On July 24th President George Bush paid a whistle-stop visit to Camp Bondsteel, America's giant, heavily fortified base in Kosovo, and congratulated the soldiers on their fine work for ethnic tolerance and freedom. “We must not allow difference to be a licence to kill,” declared the president, as he joined the troops for fried chicken and macaroni cheese. As an example to the quarrelsome peoples of the Balkans, he cited the diversity of the NATO-led peacekeeping force in Kosovo, whose ranks include Greeks and Poles, Lithuanians and Jordanians—and even forces with a long tradition of mutual hostility, such as the United States' marine corps, army and national guard.

Only 50km (30 miles) to the south, the cause of ethnic intolerance, well represented on both sides of Macedonia's internal conflict, was doing pretty well. In Tetovo, the main stronghold of the ethnic-Albanian minority, rebels traded machinegun and mortar fire with government troops. The fighting left a three-week-old ceasefire in tatters and extended, for the first time, to the town's centre. In Skopje, the capital, hundreds of Slavic Macedonians, some of whom had been forced out of villages around Tetovo by the recent fighting, went on the rampage. They threw bricks at the American, British and German embassies, and at any international organisation they could find.

At higher levels, the once cordial relations between the Macedonian leadership and the West have deteriorated sharply, because of the efforts of the European Union, the United States and NATO to arrange a political settlement. Ljubco Georgievski, the prime minister, has described as “brutal” the western negotiators' vigorous support for the acceptance of Albanian as a second official language. And in a fit of pique the government has closed the border with Kosovo, making life harder for the NATO protectorate there.

On July 25th, though, the West seemed to be scrambling to repair relations. The NATO mission said it had arrested—in Kosovo—55 suspected members of the ethnic-Albanian rebel force that is fighting in Macedonia. The German government, under heavy pressure from the Macedonian one, declared the rebels to blame for the latest fighting. This helped to pave the way for another visit by George Robertson, NATO's secretary-general.

If this latest burst of diplomacy succeeds, what will follow? Part of NATO's peace plan is a disarmament operation under which 3,000 troops from Britain, France, Germany and other countries (though not the United States, it seems) would thunder into Macedonia in helicopters and armoured vehicles to accept the weapons of the rebels, appeased by an amnesty and pledges of greater political rights for the ethnic-Albanian community.

The government, however, has not yet agreed to any such pledges. And even if it does so, some NATO officers still have doubts. NATO's preconditions for intervention are a durable ceasefire and political progress. Even if both happen—a ceasefire was reinstalled on July 25th—it cannot be assumed that the rebels will disarm. They have enjoyed a string of tactical successes since launching their insurgency in January, and stand poised to occupy a broadening swathe of western Macedonia. Months of shelling and helicopter-gunship attacks by Macedonia's army and police have not dislodged them. They can now strike

at will across the length of Macedonia's border with Albania and Kosovo.

This week vehicles travelling near the Albanian border between Tetovo and Gostivar came under rebel fire, says the army. It is finding the Tetovo area itself increasingly untenable. How long, people are wondering, before Tetovo becomes the virtual capital of a rebel mini-state, with government forces holed up behind a front line on the motorway east of the city?

Already the western allies have had to change their attitude to the rebels. A few months ago Lord Robertson was flatly refusing to negotiate with the “terrorists” and “murderers” who preferred the Kalashnikov to the political arena. This week NATO's envoys had little choice but to pick up the mobile phone and parley with rebel commanders in the hope of quelling the fighting around Tetovo.

Among Slav Macedonians, there is already a deep resentment of western governments. It could soon be translated into open hostility towards NATO troops, especially if they are deployed in large numbers as part of a disarmament programme whose terms—from the Slav-Macedonian point of view—may be too generous.

The Americans would not relish that. In between jocular exchanges with his soldiers in Kosovo, Mr Bush assured his European allies that America's military force in the Balkans would not be withdrawn or scaled down “precipitously or unilaterally”. He promised that “we came in together, and we will go out together.”

That sounds plain. But it could become hard to hold to if ever NATO faced serious fighting on the ground, and American casualties. It is well that NATO is trying to avoid any such things. As the rebels too are probably saying happily to themselves.

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Romania's government

The end of the tunnel, perhaps

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There may be hope for the biggest Balkan country, after all

AT LAST Romania may have a government with the political means to deliver it from poverty. Its people fared badly under the malign dictatorship of Nicolae Ceausescu, and they are even poorer now. Their wages average $130 a month, and inflation eats into that. The country's hopes of joining NATO and the European Union are taken tongue-in-cheek by West European foreign ministries. To the ordinary outsider, Romania means little more than street children, rabid dogs, Gypsy beggars and post-communist decay. Yet here is the biggest Balkan country, with 23m people. It could be the Poland of the region.

Poor political leadership has held it back so far, and observers groaned last autumn when the Romanians voted to return Ion Iliescu to the post as president that he had held from 1990 until 1996. That and the success of his leftist Social Democratic party in parliamentary elections seemed to bode ill for the economy. What chance was there now for the gutting and selling of loss-making state industries?

But even liberal Romanians felt they had little choice. The democratic right was unelectable after four hapless years in office. As for the presidency, the other challenger, in a run-off, was the leader of the populist right, Vadim Tudor, once a risibly bad court poet of the Ceausescu era. So Mr Iliescu it had to be.

But even he, now 71, has learned. His heart still beats on the left, but these days he can speak of capitalism without wincing. A highly qualified capitalism, that is: his passion is the “social market”. He wants all Romanians to have the chances that he, from a poor family, got from the communist state of his youth. His dream Romania would resemble Sweden circa 1970. But real power now rests elsewhere: with the prime minister, Adrian Nastase.

Mr Nastase, a 51-year-old former foreign minister and sometime law professor in Paris, believes in the free market: “an instinctive Thatcherite”, one western diplomat calls him. After six months in office he can point to some successes. The economy is perking up, helped by competitively priced exports. Inflation is edging down, and may be within reach of the government's target in a year or so. The government is also close to selling off Sidex, the state steel concern. It has long been a stone around Romania's neck, paying no tax, piling up debts of $1.2 billion, and propping up other loss-making state industries with subsidised steel.

Lately Mr Nastase has taken his “new, improved Romania” on the road, regaining some credibility for it in Germany and amicably settling payment, he says, on a $4 billion debt with Sweden. Investors remain wary. Romania has had many a false dawn. The Social Democrats' last stint in office was marked by lost opportunities, incompetence and corruption. The difference this time is that Mr Nastase, if he has the determination, has the support in parliament to deliver: he is the first prime minister to head the majority party there.

His catchword is “teamwork”. Mr Iliescu, surprisingly warmly respected by poorer Romanians, is part of the team; he can use his fatherly empathy to sell reforms. As for left-leaning bureaucrats, “anyone who does not want to follow the government programme can find employment elsewhere,” says Mr Nastase bluntly.

That's the sort of talk the EU wants to hear. It has been more upbeat about Romania of late—hence plans to lift visa requirements for Romanians next January—but reckons the country must do more to slash red tape and overhaul its decrepit judicial system. Though the foreign minister, Mircea Geoana, the chairman this year of the Organisation for Security and Co-operation in Europe, hopes to see Romania accepted by NATO next year, the government is resigned to being only in the EU's second, not its first, intake of ex-communist countries. At best, it hopes to complete negotiations by 2004 and get inside the Union some time in 2007. “We're big and poor,” shrugs a minister, “we're not ready.” Few Romanians would bet on getting EU membership before 2010.

Certainly, Mr Nastase has mountains to move. Official corruption and nepotism are rife, resources scarce, the civil service largely incompetent. The government recently promised the EU a better life for Romania's 90,000 abandoned children. That will be hard. Overhauling the pension system will be harder. And no one has a notion how to extricate Romania's 6m peasants from their smallholdings. “The point of no return for our reforms will come next spring,” reckons a minister. Until then the mood in Bucharest, as one western businessman puts it, is “cautiously, ‘cautiously optimistic'.”

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Charlemagne

Alexander Kwasniewski

Jul 26th 2001

Poland's ex-communist president likes the EU, historical truth, George Bush and the odd tipple

Get article background

POLAND'S president, Alexander Kwasniewski, is the key figure in selling his country to the European Union and the EU to the Poles. Six months into his second five-year term, and with the Czechs' Vaclav Havel soon to retire, he is, at 46, also emerging as ex-communist Central Europe's leading statesman. Witness his recent speech at Jedwabne, scene of a now notorious massacre in 1941. “The most important speech in post-war Polish history,” a western diplomat calls it. That is too much—remember the young Lech Walesa—but a statesman's speech it was.

The massacre used to be blamed on the Nazis, who had just seized the town. The truth, brought out by new historical studies, has shaken Poland to the core. On July 10th, 60 years ago, Jedwabne's Jews were rounded up, savagely beaten and then, those who were not dead already, burned alive in a barn—by their Catholic neighbours. “Fratricide,” Mr Kwasniewski calls it. At the ceremony of remembrance, he wore a yarmulka and was flanked by rabbis. It was an opportunity to put Poland in a better light with America's ever-suspicious Jews. “But the speech was also for ourselves,” says Mr Kwasniewski. “We Poles have to look truth in the eye, any truth, and say: it was so, it happened.”

Some nationalists would like to pretend otherwise. But Mr Kwasniewski can afford to be forthright. Opinion surveys give him almost 80% support. His wife Jolanta is so popular that people are only half joking when they say she should run for president in 2005. Even conservatives find it hard to be rude about this ex-communist. “Unfortunately, he's a good president,” says a government minister through gritted teeth. How does Mr Kwasniewski do it? “I simply love the people,” he beams.

Certainly, he understands them. His core support is from “disco Poland”, the 60% or so of the electorate without intellectual aspirations, just looking to get by. An agnostic, Mr Kwasniewski knew that disco Poles were not as pious as the country's churchmen liked to believe. He also saw that they were not concerned with history, a lesson the Polish right has yet to absorb. “Look to the future,” was the slogan of his first presidential triumph, over then President Walesa. Mr Walesa, a raw hero, reminded disco Poles of their petty sins under communism; Mr Kwasniewski, a smooth pragmatist, absolved them.

Like Bill Clinton and Tony Blair, his models, Mr Kwasniewski knows the value of a well-placed handshake and a squeezed shoulder. He is similarly plastic, a pal to the working man, a sober statesman to world leaders. Well, almost sober. In his previous term, a cameraman caught him staggering about the site of a mass grave, at Kharkov, in Ukraine, of second-world-war Polish army officers. Mr Kwasniewski claims he had a bad leg, others say he was stinking drunk. State television, firmly in his camp, obligingly covered up the story. It angered many Poles at the time, as did a later wisecrack about the pope. But pollsters reckon such stumbles cemented his appeal. “The people feel they can see a normal guy behind the curtain,” says one.

The ceremonial nature of his office suits Mr Kwasniewski. He has titular control of the armed forces, and a presidential veto, which he uses sparingly, but no other real power. Instead, he has carved out a role selling Poland abroad. He is the jolly backslapper at international summits, barging his way to the front row at every photo-opportunity. At home, he is more circumspect. A rare guest is a welcome guest, goes the Polish saying, and Mr Kwasniewski is all the more popular for remaining above domestic politics. A nice arrangement: failures belong to the government, successes reflect well on himself.

President and party

Things will change if, as is likely, the ex-communist Social Democrats, his party, win the general election in September. Their leader, Leszek Miller, laid on the activists to aid Mr Kwasniewski's presidential campaign, but relations between the two could become strained. They are different types. Mr Miller was the worker promoted by the party, Mr Kwasniewski the bright young man plotting his own career. He “hopes” Mr Miller will not think of a coalition with the Peasants' Party, whose voters tend to reject the EU; nor, once in office, reduce the independence of the central bank. His praise for Mr Miller is qualified: “a great organiser, the best, but he only understands Poland.” Translation, leave schmoozing at foreign summits to me.

Mr Kwasniewski's informal power will increase if the Social Democrats win the election. His own economics adviser will go to work for Mr Miller. But he may find his popularity dented by government crises, and these are quite likely. Unemployment is still rising, consumer confidence is in the dumps, and the stagnant economy has left a $4 billion hole in the budget.

While Mr Miller wrestles with that, Mr Kwasniewski will be drumming up support for joining the EU. He knows the haggling, and the ultimate terms, will be hard, especially over agriculture. Poland has too many farmers, he admits. Those who cannot compete will have to be helped into other work. “We cannot give them any illusions.” Yet he claims to feel certain that the voters, especially young ones, will back membership in the necessary referendum. “The simple arguments will work best,” he says. “There is no alternative for a developing Poland but to join—and no alternative for the EU but to take us.”

Not that Poles look west only as far as Brussels. There are millions of Polish-Americans, and George Bush got a very warm welcome in Warsaw last month. It is a special relationship that seems to work. Mr Kwasniewski has the ear of President Leonid Kuchma of Ukraine, and sold Mr Bush on the need for more American involvement with that country. The Polish president likes to see himself as the middleman.

And further ahead? In 1974, when he worked in London for some months, he became (and still is) a keen fan of Arsenal football club. International football politics? He wouldn't say no.

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About sponsorship

Sterling and manufacturing

Sliding into recession

Jul 26th 2001
From The Economist print edition

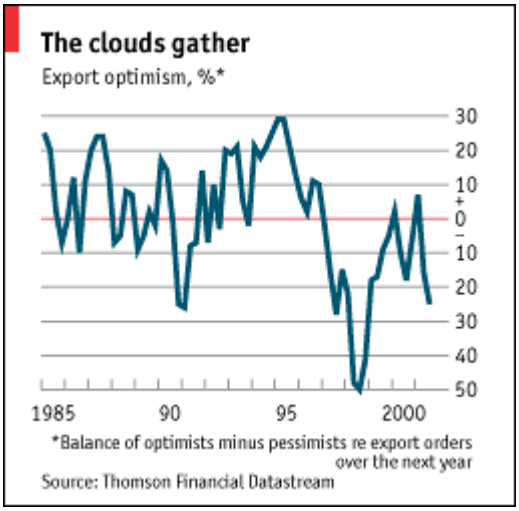
British companies are suffering. This article looks at manufacturers, the next at retailers

MANUFACTURING is in trouble. Indeed, the Confederation of British Industry gave a warning this week that it is already in recession. The statement came the day after shares in Invensys, one of Britain's biggest engineering groups, fell by 15% on its third profits warning in ten months. It followed a series of hammerblows to industry, most notably at Marconi, a telecoms-equipment company which said that its operating profits would fall by half this year.

In its quarterly survey of manufacturing, the CBI found that industrialists are increasingly depressed about export prospects next year, with 25% more pessimistic than optimistic, the largest negative balance for almost three years. The proportion of firms working below capacity was the highest since the start of 1993 when Britain was emerging from recession.

When official figures are released next month, they will confirm that manufacturing is in recession, according to Sudhir Junankar, who runs the CBI survey. Production has fallen every month from its peak last December. More worryingly, this decline has gathered momentum with output falling by almost 2% in April and May alone. The CBI survey shows that manufacturers have been destocking and are likely to cut their stocks still more over the next four months, which suggests that no relief is in sight.

The immediate reason is the slump in overseas markets. Output last year was buoyed by the growth in world trade which increased in volume at its fastest rate for three decades. But now demand from overseas markets is collapsing, especially in the high-tech sector that led the boom of the late 1990s.



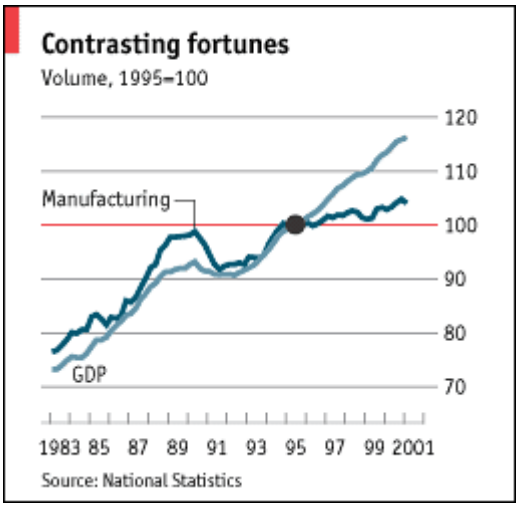
The cyclical setback is undeniably savage. What makes matters worse is that it is hitting a sector of the economy that has been in trouble for several years. In the second half of the 1990s, manufacturing output hardly grew at all.

For most industrialists, the villain is the high pound. Since it first surged in value in 1996, sterling has risen by over a quarter against a trade-weighted basket of goods. More recently, the pound has dropped against the dollar but stayed stubbornly strong against the euro. Although Britain's trade with the euro area is broadly in balance, there have been record deficits in the

global trade balance in goods. Companies appear to have sourced production into cheaper overseas markets and exporters have been struggling against their more competitive European rivals. Most analysts argue that the pound is 10-15% over-valued against the euro.

Manufacturing is the part of the economy most exposed to international trade. Over two-fifths of its sales are exported. So the strength of the pound has put it in a bearhug. “With world markets turning down, competition is getting more intense, reinforcing the squeeze on margins,” says Stephen Radley, chief economist of the Engineering Employers' Federation.

But it is too easy to put all the blame on the high pound. In fact, British manufacturers have failed to improve their efficiency enough to compete in a strong currency. Instead, the growth in industrial productivity—output per worker—has faltered.



Between 1980 and 1995, productivity grew by over 4% a year in manufacturing, double the rate for the economy as a whole. However, in the six years to the beginning of 2001, industrial productivity growth was a lacklustre 2% a year. As a result, unit labour costs have risen sharply, compounding the loss of competitiveness from the resurgent pound. This has meant that, in real terms, the pound is even stronger than in the early 1980s when it dispatched a whole batch of weak manufacturing firms to the knacker's yard.

That shock proved salutary: manufacturing was the sector that benefited most from the Thatcherite medicine of the 1980s. Restrictive practices that had long hampered industrial performance were swept away. The improvement in industrial relations encouraged a surge in inward investment by foreign firms, which typically operated at higher levels of efficiency. Their presence proved beneficial for indigenous companies as better working practices and more modern technologies spread through industry.

In spite of this improvement, serious weaknesses remained. Recent research has mapped out the gulf in productivity between the best and the worst manufacturing plants. The best are over five times more efficient than the worst ones, say Jonathan Haskel and Matthew Barnes at London University. While there are bound to be differences in performance, the disparity between the high-fliers and the stragglers appears to be more pronounced than in other countries. For example, the productivity gap between foreign-owned firms and indigenous companies is smaller in France than it is in Britain, according to Nigel Pain of the National Institute of Economic and Social Research.

Another weakness is the miserly commitment to research and development, which has become increasingly important in today's innovation-driven markets. With only a few exceptions such as aerospace and pharmaceuticals, British manufacturers spend much less than foreign counterparts in relation to sales on R&D.

Manufacturing also suffers from low skills in the workforce, extending all the way up to senior managers. One result is that British firms are failing to make the most of new “lean manufacturing” techniques that seek systematically to eliminate waste and to make the production process more responsive to customer requirements. “The fact that they are not widely deployed indicates that there is a shortage of key managerial skills,” says John Dowdy, who has conducted research into British industrial productivity for McKinsey, a management consultancy.

Manufacturing now only accounts for one-fifth of the economy, but if it is in serious trouble, that still matters. In the short-term, a further sharp fall in output will cut overall growth in GDP. In the longer-term, industry needs to do a lot better if Britain is to close the productivity gap with other countries. External factors such as overseas demand and the strength of the pound are undoubtedly hurting manufacturers, but in the last resort it is up to them to provide the cure.

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Retailing

High Street woes

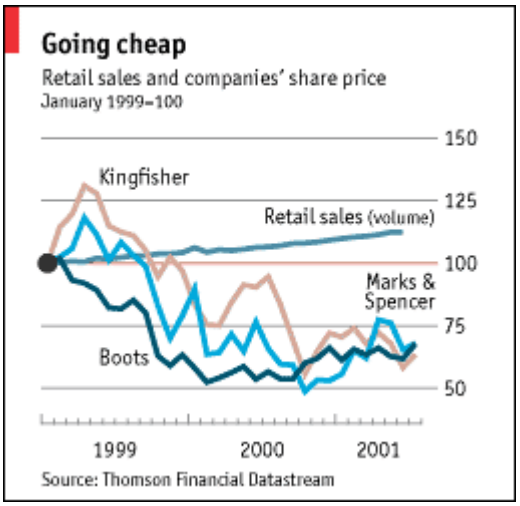
Jul 26th 2001
From The Economist print edition

British retailers have had it too easy

IT'S not just the prices that are coming down on Britain's high streets: it's the share prices, profits and reputations of some of the biggest high-street retailers. Marks & Spencer faced angry shareholders at its annual meeting this month. Its chairman and chief executive, Luc Vandevelde, gave a warning that, after 12 consecutive quarters of falling sales, he could not promise that things would get better. M&S's clothing sales are falling at an estimated 10% year on year. Last month Boots, a chemist chain, reported a drop in profits and underlying sales, and barely growing margins. At Kingfisher, a retail conglomerate, Woolworths' profits have slumped.

Yet Britain's retailers should be booming. With interest rates low and wages rising, consumers are spending at a rate not seen in almost 15 years. In June, retail sales rose in real terms by 5.6% over the previous year. The past months have seen the fastest growth rate since the peak of the previous boom in the late 1980s.

So why are so many of Britain's iconic shops doing badly? Increased competition is one reason. More foreign retailers are entering Britain, attracted by a relatively cheap workforce, a strong economy and a fashion-conscious capital city. As America's Gap, Sweden's Hennes & Mauritz, Spain's Zara and, soon, Japan's Uniqlo expand out of their saturated home markets, they tend to target Britain as an early bridgehead. And they bring with them a global fashion sense, just-in-time manufacturing and economies of scale that home-grown retailers find hard to match.



As the foreigners attack on one side, the supermarkets attack on the other. Supermarkets are improving their non-food offerings. Asda, now owned by Wal-Mart, was the first to expand aggressively into areas like stationery, videos and CDs and clothes—with a fashion range designed by George Davis, the founder of Next. The supermarkets' huge volumes and smallish range enable them to undercut the general retailers on price. A survey in April by Goldman Sachs showed that Tesco was selling a basket of DIY goods for 46% less than average DIY retail prices, while prices at B&Q, a large DIY chain, were 58% higher than average.

Growing competition is showing up the weakness in some retailers' management. Many chains have over-expanded: just count the number of Boots stores along London's Oxford Street. But, as some of the nation's biggest employers, they are fearful of a public backlash if they close shops and fire people. The result is that, while sales have been increasing, profit margins are falling. Gross margins in the sector fell from 30.1% in 1994 to 26.5% in 2000.

The managers of British retailers seem ill equipped to deal with a more competitive environment. Traditionally, the most powerful people in retail—and the ones who rose to board level—came from the buying departments. According to Richard Hyman of Verdict, a British retailing consultancy, “Old-guard retailers are a victim of their own success. They are not equipped to deal with this new focus on the consumer.”

Tesco, with its advanced supply chain systems and loyalty card, or Gap, where assistants with microphone headsets are in instant touch with the storeroom, make use of technologies that allow their backrooms to respond rapidly to what customers are buying in the front of the shop.

Not all Britain's high street retailers are badly managed. There are some exceptions, such as Next and French Connection. But as the economy starts to slow, plenty of British retailers should give a thought to clearing unwanted stock out of the boardroom as well as out of the store.

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Agriculture

Wiring the cows

Jul 26th 2001
From The Economist print edition

Misfortune has encouraged farmers to take up technology

FARMING, many people suppose, is a backward sort of business. This week, it certainly seemed as though the bureaucracy that doles out subsidies to British agriculture was mired in the past. On July 23rd, Tony Blair halted the disinfection of farms affected by foot-and-mouth, wanting to know why it was costing an average £104,000 per English farm compared with £30,000 a farm in Scotland and £10,000 in mainland Europe.

One of the few beneficial side-effects of the foot-and-mouth epidemic and the even more dreaded BSE, or “mad cow” disease, has been a rush among farmers to adopt new technology. The disease outbreaks have accelerated the introduction of individual identification of cattle. Every newborn calf has to have an identity tag, and every time it is moved from one farm to another, or sold through a market, its details have to be logged. This has two benefits: its history is known if it contracts a disease and other animals it has been in contact with have to be traced; and butchers can inform shoppers of the origin of meat that they are selling.

The huge amount of paperwork this system has generated has encouraged farmers to computerise their records and e-mail details to the government's cattle-monitoring centre in Cumbria. Some farmers are even experimenting with microchips implanted under a cow's skin. A herd's details can then be logged by running it through a cattle-pen equipped, like a supermarket till, with a data reader.

High-tech aids had anyway been creeping into British farming. Dairy farmers are now using computer systems to deliver different food to different cows as well as to monitor milk yields and health. One farmer says that the system enables him to spot illness early, and he calculates that his veterinary bills have been cut in half. Cereal farmers are taking soil samples and mapping them to within two metres. Using a satellite, precise amounts of fertiliser can be spread—lots on infertile bits of field, little on fertile bits. A farmer using this equipment thinks that he is spending up to £50 a hectare ($29 an acre) less on fertiliser, with no reduction in the harvest.

This satellite-based system has been developed in America, but nearly all the software is British. Neil Unitt, managing director of Farmplan, which turns over about £5m a year selling it to farmers, says that the peculiarities of the business and British government legislation make it difficult to import suitable software.

His firm began making stock- and crop-management programmes about 25 years ago. It moved rapidly into farm accounting software and now sells a big range of equipment. Although Mr Unitt reckons that only about 45% of British farm businesses are computerised to some degree, he thinks that Britain is more wired up than most other countries.

The government feels that the more farmers are computerised, the more efficient and less dependent on subsidy they will become. Maybe so, but many farmers are taking to computers in droves because of all those complicated forms that they must fill in to claim those subsidies.

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Drugs

Choc treatment

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Cannabis may be outside the law but it is increasingly being used for pain relief

THE scent of home baking wafts out most days from the kitchen of Biz Ivol's cottage on the shore of South Ronaldsay in Orkney. The crinkly-faced 53-year-old is not making chocolate crispies for the local Women's Institute bring-and-buy sale. She is making hash sweeties: chocolates laced with cannabis.

So busy is Ms Ivol that she jokes about getting a grant from Orkney Islands Council to install chocolate-making machinery. Such an official stamp of approval is unlikely. But Ms Ivol and her free confectionery are tolerated because she and the people for whom she bakes (referred to her by local doctors) say that cannabis is the only way of getting relief from the pain that multiple sclerosis (MS) causes them.

Ms Ivol says some MS sufferers did not want to smoke the drug for fear of getting cancer. So she mixed ground-up dried cannabis leaves with chocolate melted in the microwave. Belgian chocolate, she says, is best. “It has a high fat content which causes some sort of chemical reaction, making the cannabis stronger,” she says. The police raided her in 1997. But all that happened was that she was admonished by Kirkwall Sheriff Court. Since then she has been left in peace to carry on baking.

Ms Ivol is by no means unique. Several people in Britain are growing, using and supplying cannabis for medical purposes. People claim that it gives relief from pain caused not just by MS but by cancer and arthritis and to eyes badly affected by glaucoma.

A substantial body of medical and political opinion now favours legalising cannabis for medical uses. One company, GW Pharmaceuticals, grows cannabis under a government licence and is conducting tests on patients. It hopes to win approval for a cannabis-based mouth spray in 2003. Such was the excitement generated by its recent public share sale, that the sale was oversubscribed six times.

But, by the time it gets to market, it may face competition from the likes of Ms Ivol, whose wacky choccy has attracted inquiries from America. “I'd like to test cannabis suppositories,” she says. “The French take all their medicine up the bum, don't they? But I haven't found a guinea pig yet.”

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Pay-television

Waiting for the digital revolution

Jul 26th 2001
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Investors are getting restless

OVER the past few years, the companies that deliver multi-channel pay-television, whether by cable, satellite or a terrestrial digital signal, have been piling up debt in the scramble to be ready for the digital interactive revolution. Cable companies borrowed money in order to dig up the roads to lay fast fat lines, and to buy up other operators. BSkyB, the satellite broadcaster owned by Rupert Murdoch's News Corp, and Itv Digital, a terrestrial broadcaster, have each spent heavily giving away the set-top boxes needed to decode their services. And all the operators have splashed out on “content”, from football clubs to programme-makers, that they can beam into people's living rooms.

Having waited patiently, investors are now getting restless. Last week, NTL's share price tumbled to £5 ($7), a spectacular collapse from its high this year of £39 in January. In response, the company rushed forward its second-quarter results to July 26th, when it revealed that year-on-year revenues had grown by 46% to £634m. Net losses in 2000 were £1.95 billion. Telewest's stock has also taken a battering, as has that of BskyB, and Granada Media and Carlton Communications, the two commercial broadcasters which jointly own ITV Digital.

In one sense, this hardening of investor sentiment against pay-television operators is odd. British multi-channel television has been a success. Only a decade ago, when BSkyB was born, smug types at the BBC were muttering that pay-television would never work in Britain. Who needed more channels, went the line, when the BBC already turned out so many finely crafted programmes? There was something faintly vulgar, they whispered, and crassly American about it all.

Ten years later, Britain has one of Europe's most competitive pay-television markets. BSkyB has notched up 5.5m subscribers. The two operators that survived the industry's consolidation, NTL and Telewest, have snapped up a further 1.6m pay-television subscribers. And, in ITV Digital, the country has the world's first pay-TV operator to use a digital terrestrial signal. It now has 1.1m subscribers.

Today, no less than 44% of all British households subscribe to multi-channel television (see chart), well behind the four-fifths of American households that do, but up from a quarter in the past four years. Moreover, a hefty 86% of pay-television subscribers are already hooked up to a digital service, according to Merrill Lynch, an investment bank—up from 4% in 1998.

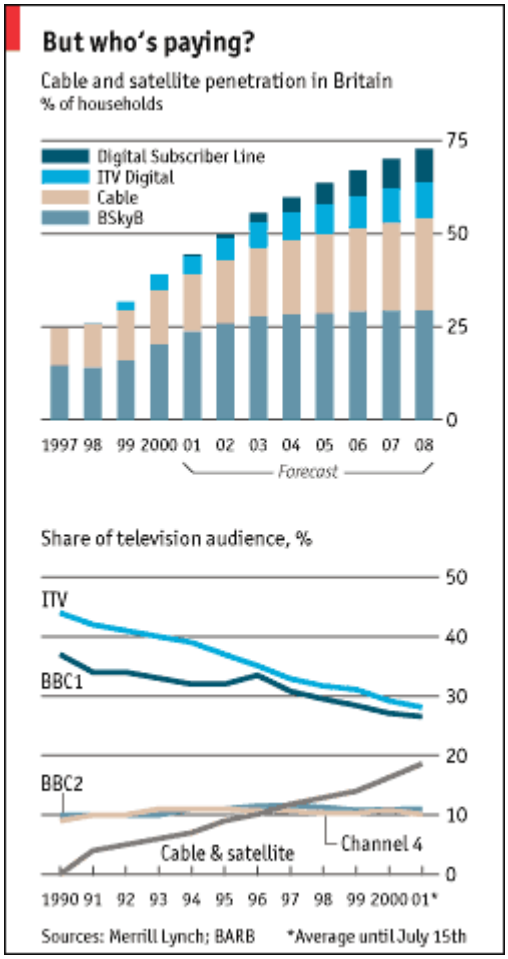
Britons, it seems, are pretty much like Americans after all. They will happily pay extra to watch sports, films or the newest episodes of finely crafted American series such as “Frasier”, “Friends” or “The West Wing”. Combined, the more than 200 channels now available on cable and satellite have gobbled up nearly 20% of British television viewing, double the share of just five years ago, and chiefly at the expense of the two terrestrial network giants, ITV and BBC1 (see chart).

So what has gone wrong for multi-channel television operators? The short answer is that the interactive revolution has still not happened. Nobody has yet worked out how to make money from all the snazzy new services that can be pushed up and down these new fat lines or beamed out of the sky.

“It's all been more expensive than anyone anticipated,” concedes Stuart Prebble, head of ITV Digital, while “it's taking a very long time to get your money back”. Back in the old analogue days, BSkyB was a profitable business. Now, having subsidised the hardware in the race for digital, both BSkyB and ITV Digital are losing money. This week BSkyB reported that pre-tax losses for the year to June had nearly doubled on the previous year, to £515m. Both the cable operators are losing money too. NTL has accumulated a vast £11 billion of net debt. Barclay Knapp, the company's American boss, who insists that there is an “an overestimated fear” in the markets about his company's debt levels, admits that he does not expect to turn in a profit until after 2005.

All these costs would not matter if revenues were about to gush forth. But they are not. The current downturn in advertising has squeezed one big existing revenue source. Yet many of the interactive features that were supposed to bring in new cash, such as shopping and banking on TV, or video-on-demand, are proving either costly to provide, or a poor alternative for the viewer to the Internet.

As if competition in the industry were not already tough enough, new challengers may yet nose their way in. This is because any firm that owns a distribution channel will seek to pump as much stuff as it can down its own pipes. Indeed, were it not for the money they earn from telephone and Internet services, which outweigh revenues from television, the cable operators would be in an even greater fix.



This month, BSkyB applied for a licence to send television along telephone operators' wires. Earlier this year, the government lifted the ban on BT broadcasting along its network; the telecoms giant is looking into the feasibility of offering multi-channel television and video-on-demand along a turbo-charged version of its existing copper wires. Too many operators carrying too many channels and chasing too few returns: something has to give.

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London Underground

Who shall rule?

Jul 26th 2001
From The Economist print edition

The battle over the Tube is between the chancellor and the mayor

Get article background

Reuters

Supporting the mayor

SO ALL the talk of compromise has come to nothing. The two parties preserved a semblance of unity until after the election on June 7th, but now the undignified endgame has begun. Perhaps inevitably, the battle over the future of London Underground between the government and Ken Livingstone, the mayor of London, has ended up in the hands of lawyers.

In a judicial review, Transport for London (TFL), the mayor's transport executive, is challenging the right of the government to impose a public-private partnership (PPP) on the Tube. Judgment is expected early next week.

The case turns on conflicting interpretations of the act that devolved power to London's mayor and assembly. It obliged the mayor to develop transport policies that are “safe, integrated, efficient and economic”. TFL argues that the mayor cannot be forced to adopt policies that undermine this obligation—as Mr Livingstone considers PPP would do, by producing an underground system that is fragmented, inefficient and dangerous. The other side argues that, under the act, the PPPdeal takes precedence over the mayor's plans. In layman's terms, this is a dispute over who runs London.

There is a telling passage in the government document that advocates the PPP. It points out that, without the scheme, “mayoral policies would inevitably change frequently over future decades with all the consequent uncertainty.” That may be true, but it seems odd for a government, committed to devolution, to argue that local democracy creates instability. As with the earlier disputes over Mr Livingstone's candidacy, the battle over PPP suggests that, like King Lear, Labour is clinging to power while pretending to give it away. The result, says Tony Travers of the London School of Economics, is that London is “treated as if it were a small commune in rural France”.

The judicial review will not determine whether the PPP is safe and efficient. The judge, nevertheless, has had to grapple with the baffling complexity of a scheme, under which three private companies would take responsibility for the repair and maintenance of tunnels, tracks and stations. With its geographical divisions, and separation of maintenance from operations, the PPP resembles, at least superficially, the fragmented arrangement on Britain's railways. That partly explains why it commands so little support among the public and transport experts. But its size and profile has made the PPPfor the Tube a risky flagshipfor Labour's plans for greater private involvement in the delivery of public service.

Given that this stand-off reflects unfavourably on one of the main achievements of Labour's first term (devolution), and is a bad advertisement for a principal goal of its second (public-service reform), you might expect the government to cut its losses and give Mr Livingstone his way. The fact that it won't has less to do with the merits of the PPP than the even murkier vicissitudes of Labour politics. Gordon Brown, the chancellor, has stuck by the PPPfor too long to capitulate now, especially to the renegade mayor. There is no love lost between the two.

That such an important issue should end up in court reflects as badly on the politicians and their profession as it does on their policies. As in all such squabbles among grown-ups who should know better, it is the innocent who suffer. To London's commuters, struggling through the summer in stifling carriages, the dispute is anything but symbolic. More than 3m journeys are made each day on a system that is expensive, over-crowded, and increasingly unreliable. Whoever wins in court, this unseemly

rigmarole has extended the inevitable delay in improving things, as London's voters will no doubt remember.

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Local regeneration

Mr Boizot comes to town

Jul 26th 2001 | PETERBOROUGH
From The Economist print edition

The reviving power of pizza in Peterborough

THERE are plenty of unusual features about the Broadway cinema. After a £9m facelift, it has been restored to its original art-deco glory. And, with 1,200 seats, it is the country's second biggest picture-house and has its largest flat screen.

But the real curiosity is that all this is to be found in Peterborough, an otherwise undistinguished city of just 156,000 people. An hour's train ride north of London, it is known largely as the site of a Roman camp and for its elegant cathedral. Now, however, the city has more to boast about, mainly due to the efforts of one long-time resident-made-good, Peter Boizot.

Mr Boizot was born and educated in Peterborough. And he still lives there, in the Great Northern Hotel, opposite the railway station. He founded the PizzaExpress chain of restaurants in 1965, and now owns three other restaurants in central London, including Kettners in Soho. He sold PizzaExpress in 1993, and since then has been ploughing the proceeds of the sale back into his home city.

Mr Boizot himself is endearingly vague about how much he has lavished on the city, but his accountant estimates that it must now be over £20m. His first purchase was the Great Northern Hotel, which has been modernised. Next came Peterborough United. He has spent £5m on the football club, during which time it has been promoted from the third to the second division. Then came the cinema, which doubles as a conference hall.

Mr Boizot has also opened an Italian restaurant and a wine bar. In the building next to the cinema he has opened an art gallery, and he has given two floors to the University of Loughborough. He has plans to upgrade the Broadway buildings to create a thriving business conference centre.

Perhaps more than most locals, Mr Boizot understands what the city needs. As well as having lived there most of his life, he has also stood twice as a Liberal parliamentary candidate. The local council has welcomed his largesse, and points out that Mr Boizot's investments work as a catalyst for local regeneration. The opening of the cinema this year has attracted new wine bars to the run-down main street where it stands.

With his other interests in jazz, art and hockey, Peterborough looks set to prosper on the profits of pizza. Which is only appropriate, as the city's largest ethnic group is Italian.

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Bagehot

Signal failure

Jul 26th 2001

Devolution in England is going nowhere fast. Funnily enough, that may be a good thing

BEFORE Tony Blair devolved power to Scotland, Wales and Northern Ireland, Britain had one of the most centralised governments in the democratic world. But here is a funny thing. After devolution, Britain still has one of the most centralised governments in the democratic world. This is because more than eight of ten British citizens live in England, which except for London has missed out on devolution.

The government admits that this could be a problem. But its plans to rectify it are proceeding with all the urgency of a Great North-Eastern locomotive waiting to limp up the misery line from King's Cross to Newcastle. In Scotland and Wales, in the independent republic of London and in Northern Ireland, devolution judders ahead (though not without the occasional pulling of alarm cords and squealing of brakes). In England itself, the Devolution Express has yet to leave the station.

Every so often, in fairness, a muffled announcement floats over the tannoy. In 1997 Labour promised to let the people of England decide, region by region, whether they wanted an elected assembly for their region. It said this again during this year's general election. As time passes, knots of porters come and go. John Prescott, the deputy prime minister, was in charge of English devolution during Labour's first term. Now he shares this platform with Stephen Byers, secretary of state for transport, local government and the regions; and with Patricia Hewitt at the Department of Trade and Industry. In its first term, the government promised a (consultative) green paper, which never appeared. Now it promises a (pre-legislative) white paper, which may not be ready until 2002. Meanwhile, nothing happens. The government has created “regional development agencies”, but these are its own agencies, appointed by ministers. It has created “regional chambers”, but these are unelected bodies with no known powers. So far as enthusiasts for English devolution are concerned, all this is a disgrace, a mess, etc, etc. How, they ask, does a government dare to run a railroad thus? Bagehot takes a different view. He blames the passengers.

Listen to the devolutionaries from the Campaign for the English Regions, or to one of the “constitutional conventions” that have sprung up here and there, and you would think that the English were roaring for a chance to set up their own local parliaments or assemblies like those in Scotland and Wales. But they are not. For the most part, the English are their usual docile selves. They slump in their seats, fill in crossword puzzles, wonder idly what the Fat Controller has in store for them. Even the devolutionaries seem to be awaiting a decision from on high. They are thrilled when Gordon Brown, the chancellor, hints that he favours their cause; ecstatic when Peter Mandelson, a former cabinet minister, calls for adding an “elected element” to the regional chamber for the North-East. And they are cast down when word arrives of some new delay to the white paper.

The sad thing here is not the delay. It is the attitude of the devolutionaries. Mood swings do not make a nation. If any of the English regions want to follow the example of the Scots and the Welsh—or of Catalans and Bavarians—they will have to stop waiting for the locomotive of the central government to pull them there. They are going to have to get out and push.

Football and grievances

English devolution would make Britain's constitution neat. But Britain itself is not neat. A Britain of a dozen chunks—eight English regions, plus London, plus Scotland, plus Wales, plus (or minus) Northern Ireland—makes more sense on paper than in politics. Whereas the Scots and Welsh are and have been nations, the people of the East Midlands or South-East will never see themselves that way. Even devolutionaries therefore accept that if English devolution began it would start in the North, and probably in the North-East, where some people have taken lately to talking about a “Geordie nation”. This, though,

is just a figure of speech. The Geordies unite around football. They are a long way from London, which is said to neglect them; and a short way from Scotland, which is said to have done well from devolution. But although football, grievance and envy make a potent mixture, they hardly clinch the case for devolution, either to the North-East or to any other corner of England.

It is, after all, still far from plain what the new regional governments should do. Paul McQuail, the co-author of a new report from London University's Constitution Unit, points out that there is great confusion about this. Is the prime aim to make the regions rich or to plug a gap in democracy? It is too blithe to assume that the two must go together. Would England genuinely welcome greater local variation in the nature and standard of public services? The perennial complaint about the “postcode lottery” suggests otherwise. Would regional government improve planning? The experience of London—where the mayor and the government are fighting in court for control of the Tube—casts doubt on this. If devolution went ahead, would the centre relinquish enough powers to make the new chambers useful? Even under the fiery leadership of Rhodri Morgan, Wales's toothless National Assembly has been a let-down.

None of this rules out devolution in England. Regions that want it should be allowed to have it. But it would be foolish for neatness's sake to impose a new layer of elected government on parts of England where there was no real demand. For this reason, there may be merit in leaving the passengers in the Devolution Express to stew a while longer. In Scotland and Wales, the devolution debate raged for decades. In England it has barely started. Nobody says that the English must threaten to secede, as the Scots did before they got their Parliament. But the least they could do is rattle a window, shake a fist at a guard, show some interest. A nation that waits politely for the centre to deliver local democracy may not be ready for it.

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Stumbling in the dark

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From The Economist print edition

EPA

Moral outrage has proved a bad basis for policy on illegal drugs, says Frances Cairncross. Time for governments to go back to first principles

IF ONLY it were legitimate, there would be much to admire about the drugs industry. It is, to start with, highly profitable. It produces goods for a small fraction of the price its customers are willing to pay. It has skilfully taken advantage of globalisation, deftly responding to changing markets and transport routes. It is global but dispersed, built upon a high level of trust, and markets its wares to the young with no spending on conventional advertising. It brings rewards to some of the world's poorer countries, and employs many of the rich world's minorities and unskilled.

However, it is an odd business. Its products, simple agricultural extracts and chemical compounds, sell for astonishing prices. A kilo of heroin, 40% pure, sells (in units of less than 100 milligrams) for up to $290,000 on the streets of the United States—enough to buy a Rolls-Royce car. These prices directly reflect the ferocious efforts by the rich countries to suppress drugs. The effect is to drive a massive wedge between import and retail prices. The import prices of both heroin and cocaine are about 10-15% of retail prices in rich countries. In poor countries, the ratio may be more like 25%. Add a little more for seizures, valued at import prices, and the grand total is probably about $20 billion. That would put the industry in the same league as Coca-Cola's world revenues.

Taken at retail prices, it is almost certainly the world's largest illicit market, although probably smaller than the widely quoted estimate by the United Nations Office of Drug Control and Crime Prevention of $400 billion, which would put it ahead of the global petroleum industry. Every number about the production, consumption and price of drugs involves much guesswork, a warning that applies all through this survey. But global retail sales are probably around $150 billion, about half the sales of the (legitimate) world pharmaceutical industry and in the same league as consumer spending on tobacco ($204 billion) and alcohol ($252 billion).

The estimate of world drug sales comes from Peter Reuter, an economist at the University of Maryland and co-author (with Robert MacCoun) of a comprehensive new study of illegal drugs on which this survey frequently draws. He notes that the official estimate of retail drug sales in the United States is $60 billion, making America easily the world's most valuable market. European sales are at most the same again, probably less. Pakistan, Thailand, Iran and China account for most of the world's heroin consumption, but prices are low, and so sales in total are probably worth no more than $10 billion. Add in Australia and Canada; add, too, Eastern Europe and Russia, where sales are growing fast, but probably still make up less than 10% of the world's total. Exclude European marijuana, much of which is domestically produced.

It may seem distasteful to think of drugs as a business, responding to normal economic signals. To do so, however, is not to deny the fact that the drugs trade rewards some of the world's nastiest people and

most disagreeable countries. Nor is it to underestimate the harm that misuse of drugs can do to the health of individuals, or the moral fury that drug-taking can arouse. For many people, indeed, the debate is a moral one, akin to debates about allowing divorce, say, or abortion. But moral outrage has turned out to be a poor basis for policy.

America's illegal-drugs policy is a dismal re-run of its attempt to prohibit the sale of alcohol

Nowhere is that more evident than in the United States. Here is the world's most expensive drugs policy, absorbing $35 billion-40 billion a year of taxpayers' cash. It has eroded civil liberties, locked up unprecedented numbers of young blacks and Hispanics, and corroded foreign policy. It has proved a dismal rerun of America's attempt, in 1920-33, to prohibit the sale of alcohol. That experiment—not copied in any other big country—inflated alcohol prices, promoted bootleg suppliers, encouraged the spread of guns and crime, increased hard-liquor drinking and corrupted a quarter of the federal enforcement agents, all within a decade. Half a century from now, America's current drugs policy may seem just as perverse as Prohibition.

For the moment, though, even having an honest debate about the policy is extremely difficult there. Official publications are full of patently false claims. A recent report on the National Drug Control Strategy announced: “National anti-drug policy is working.” In evidence, it cited a further rise in the budget for drugs control; a decline in cocaine production in Peru and Bolivia (no mention of Colombia); and the fact that the proportion of 12th-grade youngsters who have used marijuana in the past month appears to have levelled off at around 25%. If these demonstrate success, what can failure be like?

Nearer the truth is the picture portrayed in “Traffic”, a recent film that vividly demonstrated the futility of fighting supply and ignoring demand. In its most telling scene, the film's drugs tsar, played by Michael Douglas, asks his staff to think creatively about new ideas for tackling the problem. An embarrassed silence ensues.

This survey will concentrate largely (but not exclusively) on the American market, partly because it is the biggest. Americans probably consume more drugs per head, especially cocaine and amphetamines, than most other countries. In addition, the effects of America's misdirected policies spill across the world. Other rich countries that try to change their policies meet fierce American resistance; poor countries that ship drugs come (as Latin American experience shows) under huge pressure to prevent the trade, whatever the cost to civil liberties or the environment.

Moreover, America's experience demonstrates the awkward reality that there is little connection between the severity of a drugs policy on the one hand and prevalence of use on the other. Almost a third of Americans over 12 years old admit to having tried drugs at some point, almost one in ten (26.2m) in the past year. Drugs continue to pour into the country, prices have fallen and purity has risen. Cocaine costs half of what it did in the early 1980s and heroin sells for three-fifths of its price a decade ago. Greater purity means that heroin does not have to be injected to produce a high, but can be smoked or sniffed.

A matter of fashion

However, American experience also suggests that the pattern of drug consumption is altering, arguably for the better. Casual use seems to have fallen; heavy use has stabilised. More American teenagers are using cannabis (which, strictly speaking, includes not just the herb—marijuana—but the resin), but the number of youngsters experimenting with cocaine or heroin has stayed fairly steady. The American heroin epidemic peaked around 1973, since when the number of new addicts has dropped back to the levels of the mid-1960s. The average age of heroin addicts is rising in many countries—indeed, the Dutch have just opened the first home for elderly junkies in Rotterdam. America's hideous crack epidemic has also long passed, and cocaine use has retreated from its 1970s peak. And a recent study shows that the likelihood of proceeding from cannabis to harder drugs such as cocaine or heroin has fallen consistently for a decade. “We are largely dealing with history,” says Mr Reuter. “The total population of drug users has been pretty stable since the late 1980s.”

This is not an unmixed blessing: heavy users seem to be using more drugs, and to be injuring and killing themselves more often. As with cigarette-smoking, drug-taking is increasingly concentrated among the poor. And in some rich countries other than America, such as Britain, the number of both casual and heavy users of most drugs is still rising. In the poorer countries and in Central and Eastern Europe too, drugs markets are flourishing. India and China are probably the fastest-growing large markets for heroin.

But in the rich countries, the drugs that increasingly attract young users are those that are typically taken sporadically, not continuously: cannabis, ecstasy, amphetamines and cocaine. In that sense, they are more like alcohol than tobacco: users may binge one or two nights a week or indulge every so often with friends, but most do not crave a dose every day, year in, year out, as smokers generally do. That does not mean that these drugs are harmless, but it should raise questions about whether current policies are still appropriate.

In rich countries, the drugs that increasingly attract young users are those that are typically taken sporadically

Today's policies took shape mainly in the mid-1980s, when an epidemic of crack cocaine use proved a perfect issue around which President Ronald Reagan could rally "middle America". His vice-president, George Bush, called for a "real war on drugs", which caught the mood of the time: opinion polls showed that drugs were at the top of people's lists of worries. By the early 1990s the crack scare had faded, but a series of increasingly ferocious laws, passed in the second half of the 1980s, set the framework within which Mr Bush's war on drugs is still waged today.

This framework is not immutable, although formidable vested interests—including the police and prison officers—now back tough drugs laws. Attitudes to policy change over time (see article), and drugs policies in many countries are changing with them. Governments are gradually putting more emphasis on treatment rather than punishment. Last autumn, in a referendum, California voted to send first- and second-time drug offenders for treatment rather than to prison. And the law on possessing cannabis is being relaxed, even in parts of the United States, where several states now permit the possession of small amounts of it for medical use.

In Europe and Australia, governments have relaxed the enforcement of laws on possessing "soft" drugs. In Switzerland, farmers who grow cannabis for commercial sale within the country will be protected from prosecution if a new government proposal goes through. In Britain, Michael Portillo, a top opposition politician, advocates legalisation. But it is hard for an individual country to set its own course without becoming a net exporter, as the experience of Europe's more liberal countries shows. Ultimately, the policies of the world's biggest drugs importer will limit the freedom of others to act.

At the heart of the debate on drugs lies a moral question: what duty does the state have to protect individual citizens from harming themselves? *The Economist* has always taken a libertarian approach. It stands with John Stuart Mill, whose famous essay "On Liberty" argued that:

> The only purpose for which power can be rightfully exercised over any member of a civilised community, against his will, is to prevent harm to others. His own good, either physical or moral, is not a sufficient warrant. He cannot rightfully be compelled to do or forbear because it will be better for him to do so, because it will make him happier, because, in the opinions of others, to do so would be wise, or even right. These are good reasons for remonstrating with him, or reasoning with him, or persuading him, or entreating him, but not for compelling him, or visiting him with any evil in case he do otherwise. Over himself, over his own body and mind, the individual is sovereign.

Mill muses on morality

This survey broadly endorses that view. But it tempers liberalism with pragmatism. Mill was not running for election. Attitudes towards drug-taking may be changing, but it will be a long time before most voters are comfortable with a policy that involves only remonstration and reason. People fret about protecting youngsters, a group that Mill himself accepted might need special protection. They fret, too, that drug-takers may not be truly "sovereign" if they become addicted. And some aspects of drug-taking do indeed harm others. So a first priority is to look for measures that reduce the harm drugs do, both to users and to society at large.

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How did we get here?

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History has a habit of repeating itself

The war on drink

VOTERS—and governments—change their minds about ways to deal with activities they disapprove of. Governments used to ban gambling; now many run their own lotteries. Prostitution, although still generally illegal, is rarely the target of police campaigns. Attitudes to alcohol have changed in the past century-and-half. So have attitudes to drugs.

In 19th-century America, campaigners talked of the demon drink in much the same way that they now talk of drugs. The temperance movement blamed booze for crime, “moral degeneracy”, broken families and business failure. In America, this led to Prohibition, with its accompanying crime and bootlegging. In England, campaigners won restrictions on access, in the shape of the pub-closing hours that have puzzled foreign visitors ever since. It may have been a bore, but it was a less socially costly way of dealing with an undesirable habit than a ban.

Today's illegal drugs were patent medicines in the 19th century. Morphine and opium were freely available in both Europe and America. Victorian babies were quietened with Godfrey's Cordial, which contained opium. Cocaine was the basis of remedies for the common cold. When Atlanta prohibited alcohol, John Pemberton, producer of a health drink called French Wine Coca, developed a version that was non-alcoholic but still contained traces of coca, thereby creating the world's best-selling soft drink. As for marijuana, Queen Victoria reputedly used it to soothe the royal period pains.

Far from opposing the drugs trade, the British and the Americans notoriously promoted it in the 19th century. In 1800 China's imperial government forbade the import of opium, which had long been used to stop diarrhoea, but had latterly graduated to recreational use. British merchants smuggled opium into China to balance their purchases of tea for export to Britain. When the Chinese authorities confiscated a vast amount of the stuff, the British sent in gunboats, backed by France, Russia and America, and bullied China into legalising opium imports.

Initial efforts to stamp out drug use at home had little to do with concerns about health. One of America's first federal laws against opium-smoking, in 1887, was a response to agitation against Chinese “coolies”, brought into California to build railways and dig mines. It banned opium imports by Chinese people, but allowed them by American citizens (the tax on opium imports was a useful source of federal revenue). The drafters of the Harrison Act of 1914, the first federal ban on non-medical narcotics, played on fears of “drug-crazed, sex-mad negroes”. And the 1930s campaign against marijuana was coloured by the fact that Harry Anslinger, the first drug tsar, was appointed by Andrew Mellon, his wife's uncle. Mellon, the Treasury Secretary, was banker to DuPont, and sales of hemp threatened that firm's efforts to build a market for synthetic fibres. Spreading scare stories about cannabis was a way to give hemp a bad name. Moral outrage is always more effective if backed by a few vested interests.

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Big business

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The risks are high—but so are the rewards

THE drugs industry is simple and profitable. Its simplicity makes it relatively easy to organise; its profitability makes it hard to stop. At every level, its pricing and its structure are shaped by the high level of risk from enforcement: the risk of seizure and jail, and the uncertainty that arises because traders cannot rely on the law to enforce their bargains.

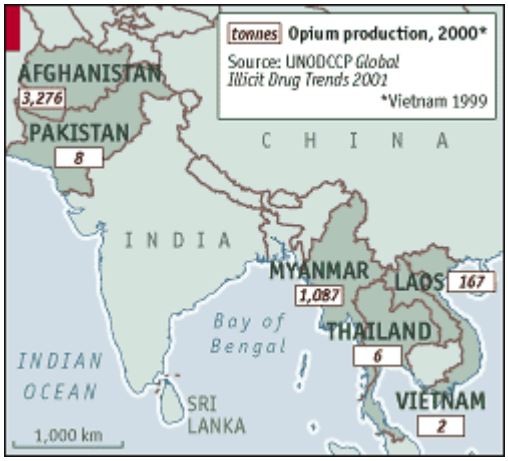
The industry's products are of two sorts. Most of its products are agricultural, but a growing sideline is made from simple chemicals. Production of farmed drugs is concentrated increasingly in two countries: about two-thirds of the world's heroin (made from opium) may come from Afghanistan and most of the rest from Myanmar; four-fifths of coca from Colombia. Only cannabis is produced in large quantities not just in the poor world—principally Mexico—but also in the rich, where much of the best stuff is grown. It is a tolerant crop. It can be interplanted in cornfields in Kentucky, or lovingly tended in an apartment in Amsterdam, where a taxi driver told this correspondent that he regularly raised 150 plants in a cupboard to sell at nine weeks for 60 guilders ($23) apiece to a local coffee shop. The bulkiness of cannabis, and its relatively low value, make it a crop best grown near the market.

Tracking crops is difficult, but easier, thanks to spy satellites, than tracking chemicals. Nobody is sure whether the Netherlands is the world's main producer of ecstasy or (as seems more likely) merely the world's main entrepôt for a product made in Poland and other parts of Eastern Europe. Methamphetamines seem to be produced mainly in small factories on both sides of the Mexican-American border. William Gore, of the Federal Bureau of Investigation in San Diego, thinks that successful law enforcement on the American side of the border has reduced factories there to making only 1-2lb (up to a kilogram) of the drug at a time; laxer vigilance to the south means that Mexican factories produce 100-200lb at a time.

Getting drugs from the poor world to the rich requires a distribution network. The task is tougher for cocaine than for heroin, because cocaine is more frequently shipped or flown to its markets, making it vulnerable to seizure. Most heroin consignments appear to travel overland. But this is where the big money starts to be made. The price paid to a Pakistani farmer for opium, reckons the United Nations, is $90 a kilo (see table, next page). The wholesale price in Pakistan is almost $3,000. The American wholesale price is $80,000. On the street, at 40% purity, the retail price is $290,000. As for cocaine, the leaf needed to produce a kilo costs about $400-600, according to Francisco Thoumi, author of a remarkable unpublished study of the Andean drugs industry. By the time it leaves Colombia, the price has gone up to $1,500-1,800. On America's streets, after changing hands four or five times, the retail price for a kilo of cocaine works out at $110,000, and in Europe substantially more.

That vast gap between the cost of producing the stuff and the price paid by the final consumer goes a long way to explaining why drugs policies so often fail. However, the people who grow or make illegal drugs see only modest returns. The value is embedded mainly in the distribution chain. In Pakistan, for example, 90% of the domestic retail price of heroin goes to local wholesalers and retailers. The price at which heroin leaves the country may be only 10% of its street price in the United States or Europe.

Developing-country producers can find distribution difficult. Bruce Porter, the author of “Blow”, a book about the 20-year career of a drug merchant called George Jung that has now been made into a film, recounts that the Colombians in the early 1970s had trouble getting their cocaine to the American market. “George showed them how to distribute, using the marijuana distribution chain.” Once that was in place, “George became a bulk transporter, shipping cocaine from Colombia to Colombians in Miami.”



The people who dominated the cocaine trade in Colombia in its early days were experienced smugglers, thanks to the country's long history of gold and emerald smuggling. Much the same was true in Mexico, says Peter Smith, director of Latin American studies at the University of California, San Diego. When tough policing in Miami drove up their costs, Colombians formed joint ventures with Mexicans who were in the general smuggling trade, rather than with the small “mom-and-pop” cartels in Mexico that had previously grown marijuana for sale in the north. They reckoned that the professional smugglers were more likely to have the logistics skills needed for the job.

In the early 1990s, these smugglers began to insist on being paid in drugs rather than cash, allowing them to break into American distribution too. They swiftly evolved from subcontracted transporters to urban distributors. The relationship is finely balanced: the Mexican smugglers know that, if they ask for too large a share, the Colombians can always return to shipping their cocaine by a different route.

Over the years, these distribution networks have become more efficient. That may explain one of the many mysteries of the drugs business: the halving of the price of heroin and cocaine between 1980 and 1990. The National Research Council speculates: “The drug industry may have experienced the learning-curve effects often associated with new industries as they find ways to be more efficient in their operations.” In a footnote, the report adds: “Learning by doing has a long history in studies of industrial organisation, productivity and growth.”

AP

Down-payment on a Rolls-Royce

Certainly the Mexicans, according to a study done for the United Nations, seem to have concentrated on the drugs business in a way that might be expected to improve efficiency. Unlike other distributors, they avoid diversifying into other sorts of crime. Joseph Fuentes, a senior New Jersey policeman who has written a doctoral thesis on the industry, explains that the Mexican distributors operate with great professionalism, sometimes employing top managers with degrees in business studies, and relying heavily on honour, credit and collateral. “The recruitment process is very like that for IBM or Xerox,” he says—except that the drug distributors require detailed information about the whereabouts of a prospective employee's parents, spouse and children.

In Europe, distribution patterns seem to be different. The United Nations reckons that organised crime is less involved, at least in cocaine trafficking, and that more trade passes through ordinary businesses, many of them based in Spain. The retail side is often run by small groups or individuals supplying a network of friends; gang-controlled distribution is rarer. That may change: for instance, Martin Witteveen of the Dutch public prosecutor's office believes that Israeli crime syndicates are taking over much of the trade in ecstasy between the Netherlands and the largest market, America.

Adding value 1

Drug price per kg, $

Heroin*	
Farmgate (opium)	90
Domestic wholesale	2,870
US wholesale	80,000
US retail	290,000
Cocaine†	
Coca leaves	610
Cocaine base	860
Cocaine hydrochloride - export	1,500
- US wholesale	25,250
US retail - crack cocaine	50,000
- cocaine powder	110,000

*Origin Pakistan, 1994 †Origin Bolivia, 1995-96
Source: *1997 World Drug Report* UNODCCP

Distribution within the rich importing countries is often dominated by immigrant groups. A police officer in Bern, in Switzerland, counts them off on his fingers: cocaine comes into the country mainly from Spain, but the trade is run by African asylum-seekers and by Turks. Heroin comes from Turkey and the Balkans, and the business is mainly in the hands of Albanians, Serbs and Macedonians, he says. Few of these folk appear in the streets: the final deal is often done by Swiss junkies. There are similar stories

everywhere: in Denmark, it is Gambians, in Australia, Vietnamese.

This foreign control is no accident. Immigrant groups may have strong links with producing countries; they speak languages the police rarely understand; they have close ties of loyalty to each other. All these things give them a competitive advantage over locals. In addition, they have less to lose because they find it harder than locals to get decent legitimate jobs.

Given that heroin and cocaine are both highly concentrated, these dealing networks are probably not large: about 500 tonnes of cocaine come into the United States each year, and some dealers handle more than 10 tonnes a year. A few hundred people probably handle most of it.

Getting a fix

The big battalions are on the streets. In poor parts of town, dealing is often a big source of employment. A study of drug markets in Milwaukee a couple of years ago by John Hagedorn, of the University of Illinois-Chicago, found that at least 10% of Latino and black men aged 18-29 drew at least part of their income from the drugs business. It was, he said, the most profitable activity in the town's informal economy: 28 businesses, dealing mainly in cocaine, employed about 190 people, their owners grossing between $1,000 and $5,000 a month. Many of the owners also had jobs in the legitimate economy—drug selling seemed to be a complement to, rather than a substitute for, legitimate work. Thirteen of these businesses had been going for at least two years, developing innovative ways of avoiding the police and so reducing their business risk. The owners had stopped dealing from street corners or homes, and used pagers and mobile phones instead. They also employed runners to deliver drugs, and so carried almost no drugs themselves.

Different customers are willing to incur different risks. Richard Curtis of the John Jay College of Criminal Justice in New York, who has studied the retail market for drugs there, has found that customers in the smart areas of midtown and lower Manhattan tend not to travel to the shadier areas of Harlem or Washington Heights to buy drugs, even though they would save money if they did.

Recruiting employees appears to be easy. “In a lot of poor communities, drug dealers are the only equal-opportunity employer,” says Deborah Small, director of public policy at the Lindesmith Centre, a drug-campaigning organisation. The main alternative source of illegal income, numbers betting, has been largely destroyed by legalisation. And drug-dealing pays well: one study of dealers in Washington, DC, at the height of the 1980s crack epidemic found that they could earn $30 an hour, compared with about $7 from legal employment.

That is an attractive rate, especially for the middle-aged high-school drop-out who is getting too old for mugging and has few other ways to make a living. But, as in every business, earnings vary with responsibility, and have to be set against the risks. A sophisticated study of the finances of one drug gang by two economists at the University of Chicago, Steven Levitt and Sudhir Alladi Venkatesh, found that, whereas the top members earned far more than their legitimate market alternative, the street-level sellers earned roughly the minimum wage. They seemed to stay in the job in the hope of rising to the top. But the risks are enormous: gang wars, essential to gain market share and to resolve disputes, also drive customers away—and for this particular sample resulted in a death rate of 7% among distributors.

Many of the “runners” at the tip of the distribution chain are paid in a mix of drugs and cash. That turns drug-dealing into a sort of pyramid-selling, giving them an incentive to make more sales. And customers, as with any business, are the lifeblood of the drugs trade.

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Choose your poison

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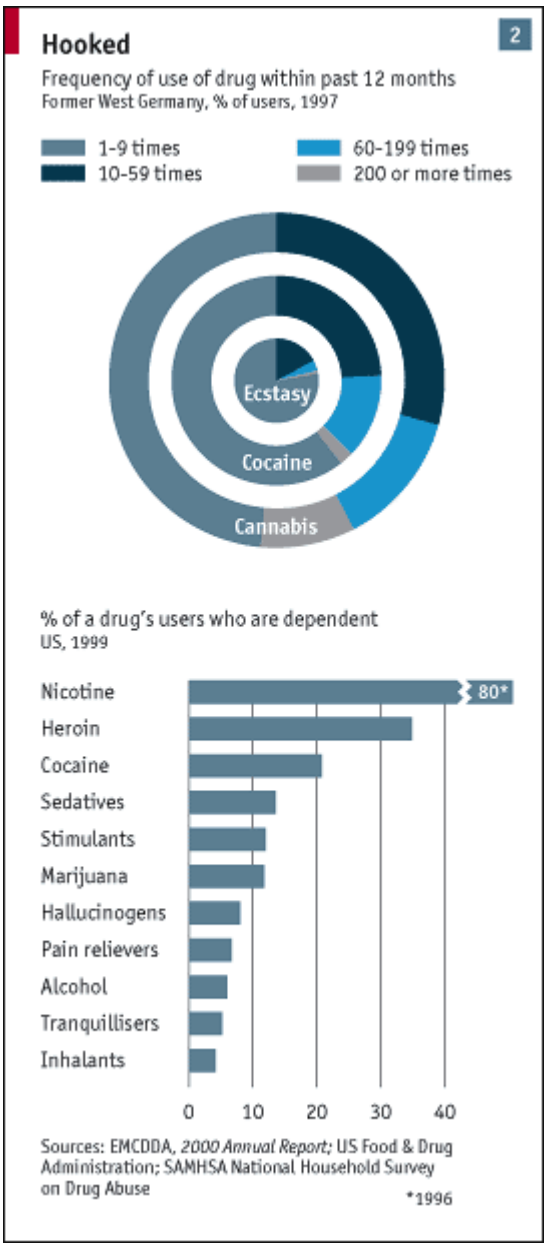
Who uses drugs, and why

MOST drug users live in the poor world, not the rich. Countries such as China and Pakistan in the case of heroin, and Colombia (South America's second most populous country) in the case of cocaine, have local traditions of drug use and vast uprooted urban populations to provide expanding markets. In future, growth will be concentrated in developing countries and the former Soviet Union.

At present, the markets with the big money are in the rich world, where the mark-ups between import and sales prices are highest. Here, not surprisingly, most people buy the drugs that have the fewest side-effects and are least likely to cause addiction. In that respect, drug users seem to behave as rationally as other consumers.

Everywhere, the most widely used drug by far is cannabis. At some point or another, about half the people under 40 in America have probably tried it. In time, as many adults in the rich world may have sampled cannabis as have tried alcohol. In many social groupings, especially in large cities, using cannabis has already become more or less normal behaviour. “The last time anyone offered it to me,” recalls Paul Hayes, a senior British probation officer who has just become head of a new drug-treatment agency, “was after a primary school parent-teacher association disco, in the home of a Rotary Club member, and the person was a detective-sergeant in the Metropolitan Police. If that's not normalisation, I don't know what is.” Prudently, Mr Hayes refused.



Other drugs are becoming part of the normal weekly pattern of life in some social circles. Amphetamines and cocaine, like cannabis, are mostly taken sporadically, and are used far more heavily by the young than by the middle-aged. Simon Jenkins, a former editor of the *Times* and member of an inquiry into drugs and the law under Lady Runciman, argues that London's vibrant clubbing scene is clear testament to the profusion of drugs available there: how else would people have the energy to dance all night?

Most drug users, like those clubbers, are occasional dabblers. A 1997 survey of western German drug users sets the tone: just under 80% of cannabis users take the drug no more than once a week, and almost half take it fewer than ten times a year (see chart). With ecstasy and cocaine, users indulge even less often.

With drugs, as with alcohol, a minority of users tends to account for the bulk of consumption. In America, for instance, 22% of users account for 70% of use. Heroin use is probably even more dominated by frequent or dependent users. Most drug users, it seems, understand the risks they are taking, and approach them rationally. Of Europe's adults, at most 3% are likely to have tried cocaine; fewer than 1% have ever sampled heroin.

Most drugs do not appear to be physically addictive. Views on this may eventually change: in laboratories all over the United States, unfortunate rats are being put into drug-induced hazes as the National Institute on Drug Abuse (NIDA) spends its hefty budget on a mass of research on the impact of drugs on the brain. Recent work on people who give up a heavy marijuana habit seems to show that they suffer anxiety and loss of appetite.

However, for the moment, the evidence suggests that neither marijuana nor amphetamines are physiologically addictive. Many people find it hard to abandon crack cocaine once they have tried it a few times, but when they do, they do not appear to become physically ill, as they would with heroin—or indeed nicotine or caffeine. “Heroin is a true addiction, with a recovery rate of 40-50%,” explains Giel van Brussel, who has been head of Amsterdam's addiction care department for many years. “With cocaine, the recovery rate is around 90%, so we don't see it as such an enormous problem.” That is rare sanity from a policymaker, but then Dutch policymakers are saner than most.

Even with the most addictive illegal drugs, only a minority of users seems to get hooked. With heroin, according to figures from America's National Household Survey on Drug Abuse, one user in three is dependent. Alarming—but not compared with nicotine, which appears to be the most addictive drug of all: one study quoted by America's Food and Drug Administration found that 80% of cigarette smokers were addicted (see chart 2, previous page). David Lewis, professor of alcohol and addiction studies at Brown University in Rhode Island, reckons that the relapse rates for those who try to give up are higher than those for heroin or crack cocaine. If the aim of drugs policy were to prevent harmful addiction, the main target of drugs enforcement agents would clearly be tobacco smokers and their dealers.

Studies of the routes by which people come to take up drugs have had a huge impact on policy. Most influential has been the “gateway” theory, suggesting that soft drugs lead on to hard drugs: if cannabis is the path to crack cocaine, then clearly the sooner that path is blocked, the better.

Guesswork about gateways

In fact, this turns out to be nonsense. Certainly, most people who take “hard” drugs have usually first smoked marijuana. But, as Lady Runciman's excellent report on the misuse of drugs in Britain argued last year, for the “gateway” theory to be proved correct requires not just that cocaine and heroin users are highly likely to have taken cannabis; it also requires that cannabis users are highly likely to move on to cocaine or heroin. Yet the vast majority of cannabis users do not graduate to these more dangerous drugs.

Moreover, there is no reliable evidence indicating that taking marijuana pharmacologically disposes people to later use of heroin. But work at Johns Hopkins University shows that children who drink and smoke in their early teens are disproportionately likely to progress later to marijuana. And a study in Britain found that the probability of 11-to-15-year-olds using an illicit drug is strongly related to under-age smoking and drinking. Beer and cigarettes seem to be gateways to marijuana, but marijuana does not seem to be a gateway to other drugs.

Whether somebody becomes a heavy drug user seems to depend on other factors. Heredity may play some part, and so may social conditions: recent American research has found that drug use is 50% more common in households that are welfare recipients than in those that are not. And family circumstances may interact with personality. Mr Hayes, after a long career in the London probation service, sees a typical user as “someone who is a risk-taker—whose lifestyle involves bending rules.” Part of the lure of drug-taking seems to be the sense of danger. The question is how far people should decide for themselves whether to take such risks, and how far the government should make that decision for them.

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The harm done

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From The Economist print edition

Drugs cause many problems, but they need to be kept in perspective

IN A former warehouse under Manhattan bridge in New York, now home to a therapeutic community run by Phoenix House, 42-year-old Michael talks sadly of the cost of 30 years on heroin and crack cocaine. “I couldn't see further than the next bag of dope. I was hustling, shoplifting and getting high. I couldn't deal with people. I have a 14-year-old son that I could never look after.”

Yuck

Michael has now been voluntarily at Phoenix House for four months, learning how to cope with others and with himself. He is well-dressed, articulate and eager to escape. The desire to be a decent father to his son, coupled with the skills training and accommodation that Phoenix House provides, may be just what he needs to kick his habit, get a job and rejoin the human race. Gabriel has a tougher job ahead: he has been in a clinic in Tijuana, just south of Mexico's border with the United States, after spending 14 of his 30 years on methamphetamines. His mother, who once threw him out for stealing from her, found him ragged and emaciated, and persuaded him to go for treatment at one of Mexico's very few professionally run clinics. Now sleek and handsome, he is off drugs. But he will struggle to find work, and will return to live in the same community where his addiction began.

Many people take drugs because they get pleasure from them. To those who prefer a glass of burgundy and a cigar, that may seem hard to understand. It is, however, improbable that so many people would spend so much money on voluntarily eating, smoking or sniffing drugs if doing so brought them nothing but misery.

Most drug users ultimately stop

That said, though, abusing drugs undoubtedly wrecks many lives. Once people become truly dependent, it can take them years to break the cycle. As with cigarettes, the pleasure then consists mainly of avoiding the pain of giving up. But the vast majority of drug users end up like neither Michael nor Gabriel. They go through a period when drugs form part of their lives, and then they move on. Peter Cohen, of the Centre for Drug Research at the University of Amsterdam, followed a sample of cocaine users whom he describes as typical. After ten years, 60% had become completely abstinent and 40% remained occasional users. “Most drug users ultimately stop,” he says. “Drugs no longer fit their lifestyle. They get jobs, they have to get up early, they stop going to the disco, they have kids.”

The dangers of drugs should not be underestimated, but nor should they be exaggerated. With the exception of heroin, drugs contribute to far fewer deaths among their users than either nicotine or alcohol. In America, for instance, tobacco kills proportionately more smokers than heroin kills its users, and alcohol kills more drinkers than cocaine kills its devotees.

Consuming a drug is rarely the only cause of death. More often, the user is taking some extra risk. That is true even for heroin. The European Monitoring Centre for Drugs and Drug Addiction (EMCDDA), which collects and analyses European statistics, reports that the mortality rate for people who inject heroin is two to four times as high as that for non-injectors, mainly because of the danger of contracting HIV or hepatitis from dirty needles.

“Acute deaths related solely to cocaine, amphetamines or ecstasy are unusual,” says the EMCDDA in a recent report, “despite the publicity they receive.” Dr van Brussel, the addiction care expert, agrees: “We have about 100 deaths a year from heroin addiction in the Netherlands,” he says, “but only one or two from cocaine.” Even though much of the world's ecstasy passes through the Netherlands, the country has

only one death a year of a person with ecstasy in his bloodstream. Even then, it is rarely clear that ecstasy (MDMA) alone is the killer. According to Charles Grob, a professor at the UCLA School of Medicine, people who take MDMA incur health risks mainly if they are already unfit. He recalls one man, who had experienced no previous problems with ecstasy, whose blood pressure began to rise alarmingly after taking it. It transpired that he had stayed at a friend's house, and used an asthma inhaler because he was allergic to his friend's cat. It was the combination of substances that had caused the trouble.

Even drugs that do not kill people may still hurt them. More and more evidence suggests that drugs may affect brain activity. Some even hint that marijuana, regarded by its fans as safer than sugar doughnuts (and less addictive), may do damage. A study recently reported in the American Heart Association's journal suggested that for middle-aged people the risk of a heart attack rose by nearly five times in the first hour after smoking marijuana.

But the overall impression remains that, in the words of the *Lancet*, a British medical journal, “It would be reasonable to judge cannabis less of a threat than alcohol or tobacco...On the medical evidence available, moderate indulgence in cannabis has little ill-effect on health.”

Whereas some drugs harm people's health, some may also do good. Hospitals still use heroin derivatives to treat pain. They cannot usually prescribe marijuana, even though a study published by the Institute of Medicine in 1999 suggested that marijuana could help to treat nausea, loss of appetite, pain and anxiety. In America, such findings have turned medical marijuana into the main issue in the campaign to soften the law on drugs.

Health apart, drugs cause other kinds of harm—not just to the individual user but to society at large. Crack cocaine seems to be linked to domestic violence, marijuana makes workers groggy, no drug is good for motorists. And some people who use drugs heavily—“chaotic” drug users – are disproportionately likely to commit crimes. A mere 5,000 of the country's estimated 25,000 hard-drug addicts are responsible for about half of all petty crimes committed in the Netherlands, guesses Bob Keizer, drugs policy adviser to the Dutch Ministry of Health.

A mere 5,000 hard-drug addicts may be responsible for about half of all petty crimes in the Netherlands

Crime and chaos

Given the expense of a heavy habit, petty crime is an obvious income source. However, Michael Hough, director of the Criminal Policy Research Unit at the University of the South Bank in London, believes that the link is not simple. Rather, the sort of person who becomes a “chaotic” drug user is also disproportionately likely already to be an “acquisitive offender”: a thief, shoplifter (the addict's crime of choice) or burglar. “The preconditions for starting on heroin are to be a risk-taker, and to have quite a bit of money,” he says. He points to a study of people arrested in Britain, by Trevor Bennett of Cambridge University, which calculated that the cost of consuming heroin and crack accounted for 32% of criminal activity.

Where drug use directly harms society, government is right to intervene. But the best way to protect society is not necessarily to ban drugs. If that were the right course, governments would begin by banning alcohol, which causes far more aggression and misbehaviour than any other substance, licit or illicit. Instead, governments everywhere pursue tougher policies against drugs, some of which are more harmful than the drugs themselves.

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Stopping it

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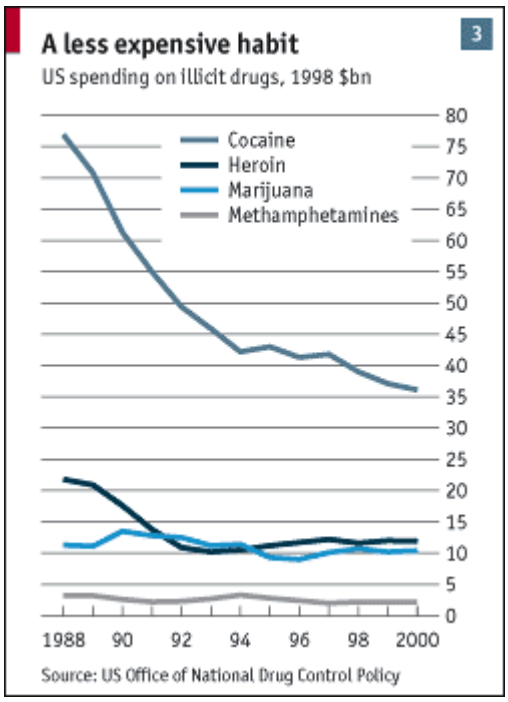
How governments try—and fail—to stem the flow of drugs

WHEN, 80 years ago, America prohibited the sale of alcohol, it imposed a milder policy than it currently applies to drugs, since people were allowed to possess alcohol for home use. Yet the 13-year experiment showed how easily a ban could distort and corrupt law enforcement, encourage the emergence of gangs and the spread of crime, erode civil liberties, and endanger public health by making it impossible to regulate the quality of a widely consumed product. The drugs war has achieved all these things but, since the business is global, it has done so on an international scale. In the United States particularly, and in those developing countries that supply it, the attempt to stamp out drugs has had effects more devastating than those of the drugs themselves.

The main targets of American supply-reduction campaigns over the years have been Bolivia, Peru, Colombia and Mexico. The net effect appears to have been a relocation and reorganisation of production, not a cutback. Dramatic falls in coca cultivation in Peru and Bolivia in the late 1990s coincided with an equally dramatic rise in Colombia, even though almost all the top people in Colombia's notorious Cali cartel had been jailed in the mid-1990s. Estimates are sketchy, but the area under cultivation may have doubled. The decline in the price of cocaine in America has led the industry to look for new markets in Europe, and to diversify into the even more profitable opium.

Given the right conditions, it is clearly possible to suppress drug-growing in some regions. A country can shift the problem elsewhere, at least temporarily. However, the real factors that lead countries into or out of drug production seem to have much less to do with policy or prosperity than with culture and social institutions. As Mr Thoumi, author of the work on drugs in the Andes, points out, every country in the world that can produce bananas does so. Yet, in spite of a much larger gap between the export and import price of cocaine or heroin than of bananas, by no means every potential grower is in the business. He sees the explanation for Colombia's booming business in its tradition of individualism, with few social controls. By contrast, Ecuador, a much poorer country that does not produce cocaine, has a stronger religious tradition.

If Mr Thoumi is right, government policy may have little durable impact on drug production. Basic economics suggest the same thing. Last year Congress voted $1.3 billion of emergency funding to Colombia to step up crop eradication over the next three years. But there are good reasons, spelled out in a recent article by Mr Reuter in the *Milken Institute Review*, why cutting off supply is doomed. The stuff is simply too profitable. Production is cheap. If a kilogram of cocaine retails for upwards of $110,000, the exporter can easily afford to double the few hundred dollars paid to the grower without much damage to his overall margin. Attempts to persuade growers to switch to planting pineapples are equally doomed: the cocaine exporters can readily outbid any reasonable scheme.



The same logic applies to shipping. American policy at the Mexican border concentrates on trying to stop the torrent of drugs that passes mainly through the Tijuana crossing, the world's busiest border. But in Tijuana, once a dirt-poor town, drugs pay for smart new homes and cars. Some youngsters go to school with packets in their backpacks to sell at lunchtime.

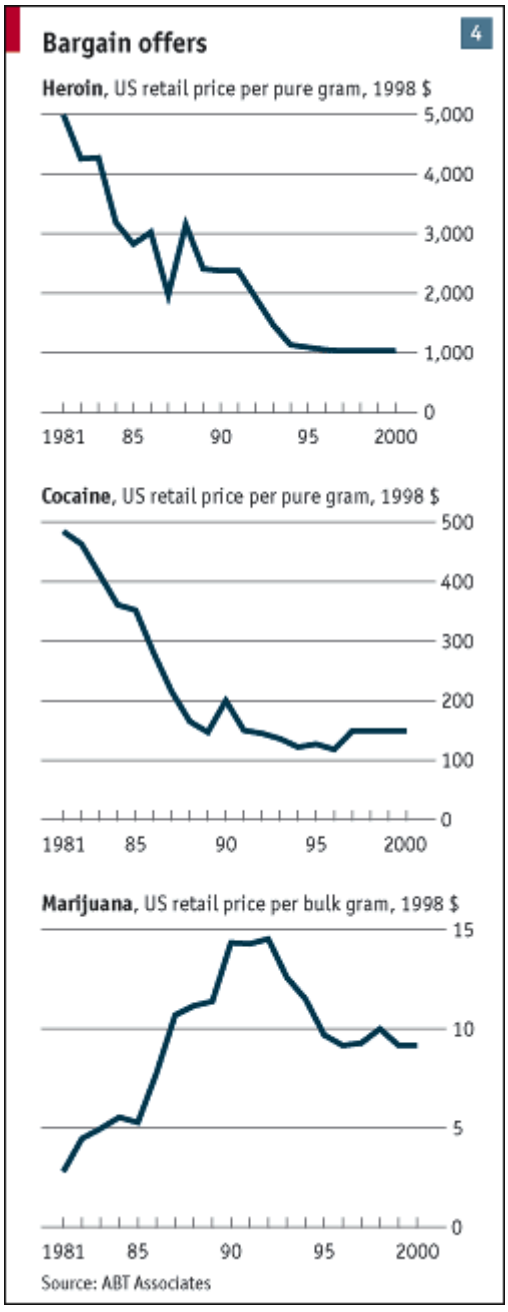
The costs of seizure are small compared with the profits. Earlier this year, the US Coastguard seized two vast shipments of cocaine, one of 8 tonnes and the other of 13 tonnes. Together, they could have supplied 21m retail sales.

To the astonishment of law-enforcement officers, the retail price of cocaine did not appear to budge. The enormous street value of the product makes it extremely cheap to ship. As Mr Reuter puts it, “A pilot who demands $500,000 for flying a plane with 250 kilograms is generating costs of only $2,000 per kilogram—less than 2% of the retail price. Even if a $500,000 plane has to be abandoned after one flight, it adds only another $2,000 to the kilogram price.”

The power to corrupt

A profit margin such as this leaves enormous scope for corruption. Victor Clark Alfaro, a doughty human-rights campaigner in Tijuana, insists that: “Corruption goes from the police on the street to the top officials.” The federal police, understaffed and underpaid on $700-800 a month, are no match for the big cartels. Francisco Ortiz Franco, an editor on *Zeta*, a newspaper that has had several run-ins with Mexican drug gangs, guesses that at least 20% of the agents fighting the drug trade are paid by the gangs; one dealer captured a couple of years ago put the figure for state and federal police officers at 80%. The problem is not that the police are particularly greedy: their option is usually to accept drug pay or risk retribution from the gangs.

Faced with such economics, the Bush and Fox administrations have been building closer links. For the first time, a big Mexican drugs boss was recently extradited to America to stand trial. And the American administration is at last willing to admit that—as President Bush said on a visit to Mexico earlier this year—the real problem is demand. But tackling demand is just as tricky as cutting off supply.



Superintendent Dean Ingledew of London's Metropolitan Police is in charge of policing Soho, the city's main nightclub district. His territory is full of Victorian alleyways, hostess bars and illegal drinking clubs. The customers who support Soho's thriving crack trade are mainly “rough sleepers”, homeless folk who can make up to £100 ($140) a day begging in the street. But the market is changing: many more young professionals are coming in to sample a drug that has never before been popular in Britain, but now seems to be becoming more affordable.

Mr Ingledew and his colleagues use a mixture of community co-operation and street design, trying to improve lighting in Soho's darkest nooks. They are developing ingenious ways to trap those dealers who keep their stock of “rocks” in their mouths and swallow them when arrested. But ultimately their main goal is protecting public safety and the quality of life in Soho. Drug-dealing causes less disruption than belligerent drunks, but he is frank about the difficulty of tackling it. “Our aim is to arrest the dealers,” he says, “but there are a huge number of people who want to buy from them. So whenever we take a dealer out, the gap is filled. Enforcement is at best able to displace the market a few hundred yards, and to keep a lid on it.”

In New York, where the drug problem once bred horrific gang violence, the emphasis has been different. Michael Tiffany, deputy chief of the Bronx Narcotics Division at the New York Police Department, explains how putting a lot of officers into drug enforcement over the past eight years has brought successes. Up until 1994-95, he says, New York was the main distribution point for cocaine in the north-eastern United States. A decade ago, 50% of the people arrested for drug offences in the Bronx might have been from out of town. Now 95% of them are local. The wholesale distribution network has moved on.

Gone, too, has much of the violence. Bridget Brennan, special narcotics prosecutor for the City of New York, argues that increased enforcement has “taken out the most disorganised—and most violent—organisations, that were shooting each other over spots. The ones left are more careful. They have a

business interest in keeping violence down and not attracting attention to themselves."

Her fear is that, with the violence gone, public support for tough policing may fade: "The greater our success, the harder it may be to go on." Mr Tiffany has a different worry. "We can control the distribution of narcotics to a reasonable degree. We can control the violence." But, with so many drugs pouring into the country and a popular culture that accepts them, "we will reach the point where all we can do is to hold the line."

Both in London and New York, the police rightly give priority to stopping the threats to public order and safety that drug-dealing can bring. Enforcement everywhere ought to have effects on the supply of drugs: it should drive up the price, reduce the competition and restrict the supply. But the increased efforts that governments have made to stem the flow do not appear to have raised the price, lowered the purity or discouraged the purchase or the use of drugs. That is true even in America, where policy has been concentrated on trying to reduce the availability of illegal drugs. This has been vastly expensive; it has sometimes corrupted the law-enforcement process; and it has damaged civil liberties and led to the imprisonment of hugely disproportionate numbers of non-whites.

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Collateral damage

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The drugs war has many casualties

THE most conspicuous victim of the war on drugs has been justice, especially in America, where law enforcement and the legal system have taken the brunt of the harm. But all over the world there are human victims too: the drug users jailed to punish them for the equivalent of binge drinking or smoking two packs a day—except that their habit is illegal. Many emerge from prison more harmed, and more harmful, than when they go in.

The attack on drugs has led to an erosion of civil liberties and an encroachment of the state that alarms liberals on America's right as well as the old hippies of the left. At the Cato Institute, a right-wing think-tank in Washington, DC, Timothy Lynch is dismayed by the way the war on drugs seems to be corrupting police forces. Not only does it breed what some might see as excusable dishonesty: “testalying”, or lying on the witness stand in order to put a gang behind bars. It also breeds police officers who, says Mr Lynch, “use the powers of policing to put a rival gang out of action”.

The drugs war perverts policing in other ways too. For example, the police can keep property seized from a drugs offender, which may be giving the wrong incentives. Another undesirable effect has been the militarisation of America's police forces. Some 90% of police departments in cities with populations over 50,000, and 70% of departments in smaller cities, now have paramilitary units. These Special Weapons and Tactics, or SWAT, teams are sometimes equipped with tanks and grenade launchers. In Fresno, California, the SWAT team has two helicopters complete with night-vision goggles; in Boone County, Indiana, an amphibious armoured personnel carrier. Set up initially to deal with emergencies such as hostage crises, such teams increasingly undertake drugs raids. Inevitably, from time to time they raid the wrong premises or shoot the wrong suspects.

Now for some colour-blind justice

Civil liberties also suffer because there is usually no complaining witness in a drugs case: both buyer and seller want the transaction to take place. The police, says Mr Lynch, therefore need to rely on informants, wire-taps and undercover tactics that are not normally used in other crimes. The result is “a cancer in our courtrooms”, as he puts it, that proponents of America's drugs war rarely acknowledge as one of the costs of prohibition.

To these intrusions should be added many smaller ones. All manner of benefits have become conditional on a clean drugs record. Employers routinely test staff for drugs: in the mid-1990s, 14% of employees said their bosses tested people when they hired, and a further 18% said they subsequently conducted random tests. Access to student loans, driving licences and public housing are all now jeopardised by taking drugs. Since traces of cannabis stay in the urine longer than those of more dangerous drugs, the greatest threat to such privileges comes from the mildest offence.

Out of sight

But by far the worst consequence of the war on drugs is the imprisonment of thousands of young blacks and Hispanics. Of the $35 billion or so that the American authorities spend each year on tackling drugs, at least three-quarters goes not on prevention or treatment but on catching and punishing drug dealers and users. More than one in ten of all arrests—1.5m in 1999—is for drug offences. Some 40% of those drug arrests were for possessing marijuana. Fewer than 20% were for the sale or manufacture of drugs, whether heroin, cocaine or anything else. The arrests also sweep up a distressingly large number of

teenagers: 220,000 juveniles were picked up for drug offences in 1997, 82% more than in 1993.

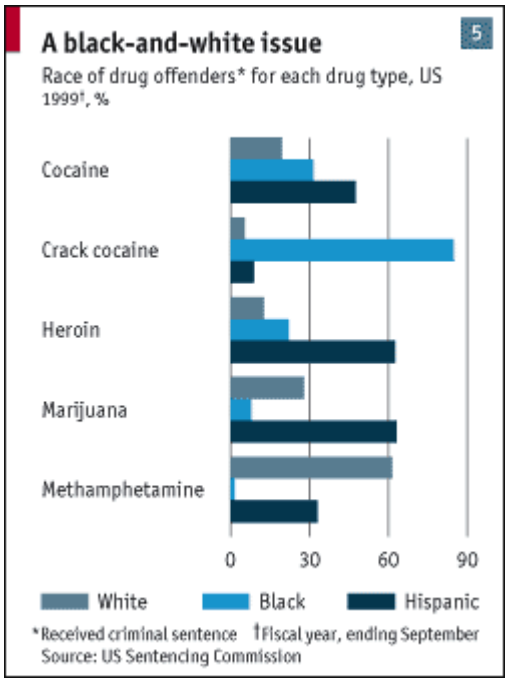
Many of those arrested receive mandatory minimum sentences of five or ten years for possession of a few grams of drugs, a dire punishment rushed through Congress in 1986 amid hysteria about crack cocaine. Eric Sterling, now head of the Criminal Justice Policy Foundation, a campaigning group, worked in Congress on drugs policy at the time. He recalls that Congress set small quantities for no better reason than ignorance, politicking and “a lack of fluency in the metric system”.

A case for clean needles

Because congressmen did not know their grams from their kilos back in 1986, America's prisons are crammed with drug offenders, who now account for roughly one in four of those in custody, and more than half of all federal prisoners. Most of these drug offenders are locked up for non-violent crimes: in only 12% of cases was any weapon involved. Almost all are from the broad bottom end of the drug-dealing pyramid. America's imprisonment rate for drug offences alone now exceeds the rate of imprisonment in most West European countries for crimes of all kinds.

Disturbingly, even though drug use is spread fairly evenly across different racial groups, three-quarters of those locked up are non-white (see chart). For example, most users of crack cocaine are white, but 90% of crack defendants in federal courts are black or Hispanic. White people, being generally richer, do their deals behind closed doors, whereas blacks and Hispanics tend to trade on the streets, where they can be caught more easily. A report by The Sentencing Project, a group lobbying for criminal-justice reform, notes that black people account for 13% of monthly drug users; 35% of those arrested for possessing drugs; 55% of those convicted; and 74% of those sentenced to prison.

Thanks to the war on drugs, says JoAnne Page, head of the Fortune Society, which campaigns on behalf of ex-prisoners, there are now more young black men in prison than in college. “The consequences are devastating,” she says. “We are taking a whole generation of young black and Latino kids and teaching them a set of survival skills that allow them to live in prison but get them fired from any job.” A recent study by Human Rights Watch reports that 20% of men in prison are victims of forcible sex. “The rage that these people come out with affects their relations with their families,” says Ms Page.



If they go to prison without a drugs habit, they may soon acquire one. “I've seen heroin, marijuana, cocaine in prison,” reports Julio Pagan, a former convict who is now a counsellor. “I've seen people injecting drugs.” Those who inject in prison are at extreme risk of contracting HIV, because they are far more likely than users outside to share needles. Dr Alex Wodak, director of an alcohol and drugs unit at St Vincent's Hospital, in Sydney, Australia, calculates that at least half the inmates in Australia's prisons are injecting drug users, half of whom continue injecting in jail, where they might typically share needles with 100 people in a year.

This risk is unique neither to Australia nor to the rich world. Dr Wodak cites disturbing evidence that the sharing of needles by injecting drug users in prisons in Thailand has been the origin of that country's terrifying AIDS epidemic. Locking up drug injectors and failing to provide them with clean needles may thus be one of the biggest threats to global public health.

These immense costs to society must, of course, be set against the benefits gained from banning drugs. But there is another, more mundane cost that should be taken into account: the loss of potential revenue. One of the main reasons Prohibition eventually came to an end in America was that it yielded no tax revenues. Likewise, prohibition of drugs hands over to criminals and rogue states a vast amount of revenue—say $80 billion-100 billion a year, based on the gap between rich-world import prices and retail prices—that governments could otherwise tax away and spend for the common good.

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Better ways

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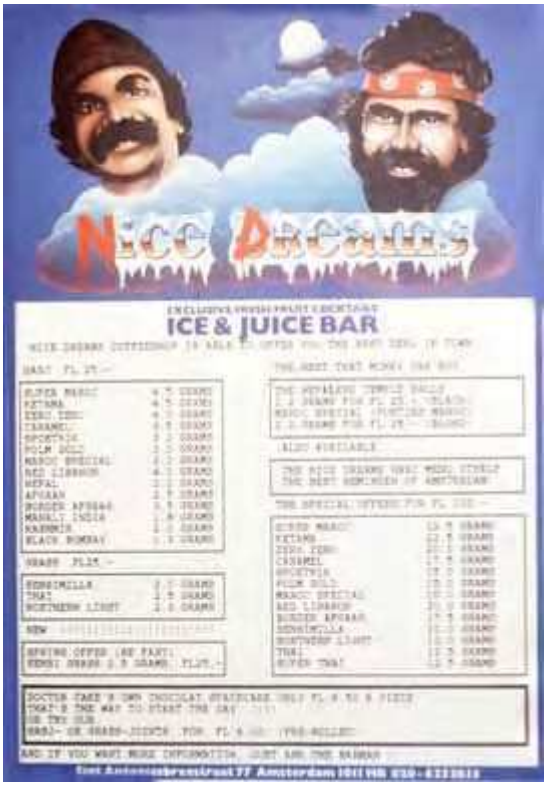
If enforcement doesn't work, what are the alternatives?

IMPRISONMENT is unlikely to clinch the war against drugs. What other weapons are there? Education for the young is one possibility, although its record is discouraging: one recent report complains that “large amounts of public funds...continue to be allocated to prevention activities whose effectiveness is unknown or known to be limited.” However, for habitual users, the alternatives are more promising. Drug reformers advocate projects collectively known as “harm reduction”: methadone programmes, needle-exchange centres, prescription heroin.

One of the most remarkable projects designed to reduce harm is going on in a clinic two floors up in a side street in Bern, in Switzerland. The clinic is tidy: no sign, apart from covered bins full of spent syringes, of the 160 patients who come two or three times a day to receive and use pharmaceutical heroin. This Swiss project grew out of desperation: an experiment in the late 1980s to allow heroin use in designated sites in public parks went badly wrong. Bern had its own disagreeable version of Zurich's more notorious heroin mecca, Platzspitz. In 1994 the city authorities in Zurich and Bern opened “heroin maintenance” clinics, of which Bern's KODA clinic is one.



Going Dutch

It takes addicts from the bottom of the heap. By law, patients must not only be local residents: they must be the addicts with the greatest problems. Christoph Buerki, the young doctor in charge, describes the typical patient as a 33-year-old man who has been on heroin for 13 years and made ten previous efforts to stop. Half his patients have been in psychiatric hospitals, nearly half have attempted suicide, many suffer from severe depression. Given such difficult raw material, the clinic has been remarkably successful.

First of all, relatively few drop out of the programme, in contrast to most other drug-treatment schemes. After a year, 76% are still taking part; after 18 months, 69%. Of those who drop out, two-thirds move on either to methadone, a widely used heroin substitute, or to abstinence. Two-thirds of the patients, stabilised on a regular daily heroin dose, find a job either in the open market or in state-subsidised schemes. Crime has dropped sharply. “To organise SFr100-200 ($57-113) a day of heroin, you need either prostitution or crime, especially drug-dealing,” says Dr Buerki. Yet a study that checked local police registers for mentions of patients' names found a fall of 60% in contacts with the police after the addicts started coming to the clinic. Hardly any patients attempt suicide or contract HIV, because the clinic sees them daily, monitors their physical and psychological health, and administers other medicines when they come in for their heroin.

Interestingly, one side benefit of the programme seems to be to reduce the use of cocaine. Dr Buerki dislikes the idea of prescribing that drug because of its unpredictable effects. The vast majority of his patients are taking it when they first arrive, 56% occasionally and 29% daily. After 18 months of treatment, 41% have stopped using cocaine and 52% use it only occasionally. Given that there is no equivalent of methadone to wean cocaine users off their drug, that is a hopeful finding.

Switzerland's experience, says Robert Haemmig, medical director of Bern's Integrated Drug Services Programme, suggests that abstinence may not be the right goal for heroin addicts. People can tolerate regular doses of heroin for long periods, but if they give up for a period and then start again they run a big

“It's always hard to tell politicians that abstinence is

risk of overdosing. “It's always hard to tell politicians that abstinence is quite a risky thing for these people,” he says.

quite a risky thing for these people”

Heroin maintenance is still used sparingly in Switzerland, for about 1,000 of the country's estimated 33,000 heroin addicts. Most of those in treatment get not heroin but methadone. But the programme's success suggests that there are ways to help even the most “chaotic” drug users, if governments are willing to be open-minded. Predictably, the Swiss doubt whether it would work everywhere: “You need a society with well-paid professionals and a low rate of corruption in the medical profession,” says Thomas Zeltner, the senior official in the federal health ministry. But the economics of the programme are impressive. It costs much the same as methadone maintenance, and considerably less than a therapeutic community or in-patient detoxification. It reaches patients that no other programme can retain. It reduces crime and legal costs and saves much spending on psychiatric hospitals.

Market separation

The Swiss heroin maintenance programme shows what can be achieved when a country starts to think of drug addiction as a public-health problem rather than merely a crime. The Netherlands has taken a similarly pragmatic approach to marijuana for the past quarter of a century. It has aimed to separate the markets for illegal drugs to keep users of “soft” ones away from dealers in the harder versions, and to avoid marginalising drug users. “We have hardly a single youngster who has a criminal record just because of drug offences,” says Mr Keizer, the Dutch health ministry's drug-policy adviser. “The prevention of marginalisation is the most important aspect of our policy.”

The Dutch Ministry of Health helps to finance a project by the independent Trimbos Institute of mental health and addiction, to test about 2,500-3,000 ecstasy tablets a year for their users. “When we find substances such as strychnine in the tablets, we issue a public warning,” says Inge Spruit, head of the institute's department of monitoring and epidemiology.

What makes this approach work is the Dutch principle of expediency, which has already proved useful in dealing with other morally contentious issues such as abortion and euthanasia. The activity remains illegal, but under certain conditions the public prosecutor undertakes not to act. Amsterdam's famous coffee shops, with their haze of fragrant smoke, are tolerated provided they sell no hard drugs, do not sell to under-18s, create no public nuisance, have no more than 500 grams (18 ounces) of cannabis on the premises and sell no more than 5 grams at a time.

Erik Bortsman, who runs De Dampkring, one of Amsterdam's largest coffee shops, grumbles that the police (and, worse, the taxmen) raid him two or three times a year, weighing the stock, checking the accounts and examining employees' job contracts. Sounding like any other manager of a highly regulated business, he complains that ordinary cafés that stock cocaine behind the counter get by with no restraints. He points out, too, that it does not make sense to allow youngsters to buy tobacco and alcohol at 16 but stop them from buying cannabis until they are 18.

But his main grouse is that, although Dutch police allow the possession of small amounts of drugs for personal use, he is forbidden to stock more than 500 grams, and his purchases remain technically illegal. This contradiction is at the heart of Dutch drugs policy. Ed Leuw, a researcher from the Dutch Ministry of Justice, believes that a majority of Dutch members of parliament would like to legalise the whole cannabis trade. Why don't they? Partly because it would further increase the hordes of tourists from Germany, Belgium and France that come to take advantage of the relaxed Dutch approach; but mainly because the Dutch have signed the United Nations convention of 1988, which prevents them from legalising the possession of and trade in cannabis.

However, Switzerland may have found a way around that obstacle. In a measure that must still pass through parliament, the government proposes allowing the growing of, trade in and purchase of marijuana, on condition that it is sold only to Swiss citizens and that every scrap is accounted for. All these activities would remain technically illegal, but with formal exemption from prosecution, in line with Dutch practice. There is no precedent for this in federal Swiss law. “We wouldn't have done things this way if we hadn't signed the UN convention,” admits Dr Zeltner.

Extending the model

Could Dutch and Swiss pragmatism be the basis of wiser policies across the Atlantic? Among lobbyists, the idea that the aim of policy should be to reduce harm is extremely popular. At the start of June, the Lindesmith Centre, newly merged with the Drug Policy Foundation, another campaigning group, held a conference in Albuquerque, New Mexico, where speaker after speaker argued that current American policies did more harm than good.

A brave minority of politicians agrees, including Gary Johnson, New Mexico's Republican governor. He is aghast at the lopsided severity of drugs laws. “Our goals should be the reduction of death, disease and crime,” he says, claiming that many other governors share his views.

For the moment, Mr Johnson is seen as a maverick. “The harm-reduction approach doesn't sell well in the United States,” says John Carnevale, formerly of the Office of National Drug Control Policy. What is forcing more debate, he reckons, is a movement among the states to allow the medical use of marijuana, and perhaps the perceived injustice of imprisoning so many young black men.

The campaign to allow the use of marijuana for medical treatment recently received a setback with a ruling by the Supreme Court against the cannabis buyers' co-operatives that have flourished mainly in California. But public opinion seems to be cautiously on board: a 1999 Gallup poll found 73% of Americans in favour of “making marijuana legally available for doctors to prescribe in order to reduce pain and suffering.”

Change, if it comes, will start at state level. But it will come slowly. Governments everywhere find it hard to liberalise their approach to drugs, and not just because of the UN convention: any politician who advocates more liberal drugs laws risks being caricatured as favouring drug-taking. Still, the same dilemma once held for loosening curbs on divorce, abortion and homosexuality, on all of which the law and public opinion have shifted.

Public opinion is clearly shifting on drugs, too. When the Runciman Report in Britain last year advocated a modest relaxation of the laws on marijuana, the Labour government raced to condemn it. It hastily changed its tune when most newspapers praised the report. And it is worth recalling that at the time of America's 1928 election, Prohibition enjoyed solid support; four years later the mood had swung to overwhelming rejection.

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Set it free

Jul 26th 2001
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The case for legalisation is difficult, but the case against is worse

SHOULD the ultimate goal be to put drugs on a par with tobacco and alcohol? That would mean legalising both possession and trade (one makes no sense without the other), setting restrictions on access that reflect a drug's relative danger, and insisting on quality controls. Many people understandably recoil at such a prospect. There is little doubt that legalising drugs would increase the number of people who took them, whatever restrictions were applied; and it would raise difficult issues about who should distribute them, and how.

Gateway drugs

The number of drug users would rise for three reasons. First, the price of legalised drugs would almost certainly be lower—probably much lower—than the present price of illegal ones. This is because prohibition raises the price by far more than any conceivable government impost might do. If cocaine, say, were legal, estimates Mark Kleiman, a drug-policy expert at the University of California in Los Angeles, the price would be about a 20th of its current street level. As for legal cannabis, he thinks, it would cost about as much as tea. Surely no government would impose a tax large enough to replace that imposed by enforcement. Indeed, if it did, legalisation might backfire: smuggling and so crime would continue.

Second, access to legalised drugs would be easier and quality assured. Even if the stuff were sold in the sort of disapproving way that the Norwegians sell alcohol, more people would know how to buy it and would be less scared to experiment. And third, the social stigma against the use of drugs—which the law today helps to reinforce—would diminish. Many more people might try drugs if they did not fear imprisonment or scandal.

A fourth force might be that of commercialisation. “Imagine Philip Morris and the Miller Brewery with marijuana to play with,” says Mr Kleiman. In no time at all, the market would be backed by political contributions, just as those for tobacco and alcohol have been for so long. And, judging by the way state lotteries offer games designed to create compulsive gambling, state distribution might well act as a positive encouragement to consumption.

“Imagine Philip Morris and the Miller Brewery with marijuana to play with”

So more people would dabble in drugs, including many more young people. “Anything available to adults will be available to children,” says Mr Kleiman. In America, where—to the astonishment of Europeans—nobody under 21 is allowed to buy drink, plenty of youngsters have fake identity cards. Some 87% of American high-school seniors have sampled alcohol, but only 45% have tried cannabis. So the potential market is large. Drugs might become as widely used as alcohol—and alcohol abuse might also rise. Work

by Rosalie Pacula of RAND, a think-tank in California, shows that young people tend to see the two as complements, not substitutes.

Legalisation, argue Mr Reuter and his co-author, Robert MacCoun, would result in “a clear redistribution of harms”. Poor people would on balance be better off, even if many more of them used drugs, if they were no longer repeatedly imprisoned for doing so. But there would be a greater risk “that nice middle-class people will have a drug problem in their family”.

True, it is difficult to prove from past episodes of drug liberalisation that such consequences would indeed occur. Crucially, it is hard to measure the responsiveness of drug demand to changes in price. But the evidence for cocaine and heroin suggests that demand may be at least as responsive as that for cigarettes. The same may be true for other drugs.

In fact, nobody knows quite what drives the demand for drugs. Fashions come and go. Some societies seem to resist drugs even though they are widely available (the Dutch have moderate rates of marijuana use by European standards); in others, such as Britain's, use is high despite tough laws. As with other social trends—crime, unmarried motherhood, religious observance—countries seem to be heading in roughly the same direction, but with varying degrees of enthusiasm.

The best answer is to move slowly but firmly to dismantle the edifice of enforcement. Start with the possession and sale of cannabis and amphetamines, and experiment with different strategies. Some countries might want the state to handle distribution, as it does with alcohol in Scandinavia. Others might want the task left to the private sector, with tough bans on advertising, and with full legal liability for any consequent health risks. If countries act together, it should be possible to minimise drug tourism and smuggling.

The best answer is to move slowly but firmly to dismantle the edifice of enforcement

Move on to hard drugs, sold through licensed outlets. These might be pharmacies or, suggests Ethan Nadelmann, director of the Lindesmith Centre, mail-order distributors. That, after all, is how a growing number of people in America acquire prescription drugs, including some that are not licensed for use in their country. Individual states could decide whether to continue to prohibit public sale. Removing the ban on possession would make it easier to regulate drug quality, to treat the health effects of overuse, and to punish drug-users only if they commit crimes against people or property.

The result would indeed be more users and more addicts, though how many is unknowable. But governments allow their citizens the freedom to do many potentially self-destructive things: to go bungee-jumping, to ride motorcycles, to own guns, to drink alcohol and to smoke cigarettes. Some of these are far more dangerous than drug-taking. John Stuart Mill was right. Over himself, over his own body and mind, the individual is sovereign. Trade in drugs may be immoral or irresponsible, but it should no longer be illegal.

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Japanese companies abroad

Yen and yuan

Jul 26th 2001 | HEFEI AND TOKYO
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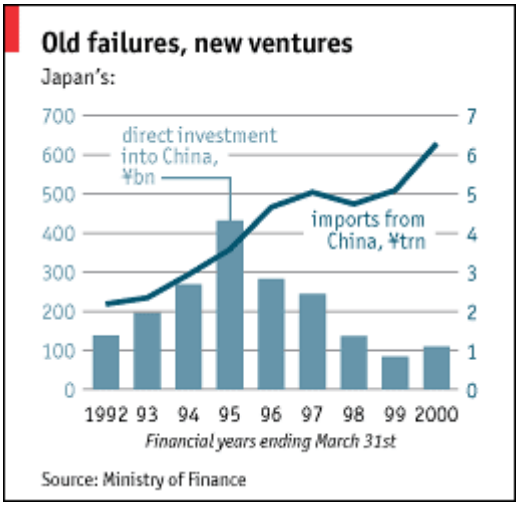
Japanese firms are cutting costs and breaking a taboo by importing from China

IF YOU want to know the latest fashion among elderly Japanese ladies, the place to go is Hefei. There, on the ground floor of a state-owned textile factory, the 300 workers of the Hefei Ziyou Fashion Company are putting the finishing touches to their autumn collection. Hip it is not. Yet in one respect, the drab brown and blue polyester dresses of the Hefei Ziyou Fashion Company really are rather fashionable. The firm's owners, manager and customers are all Japanese. But Hefei is in China.

Japanese merchants have been discovering, forgetting and rediscovering China for centuries. Appetite comes and goes: a rush of investments in the mid-1990s gave way to leaner years as earlier business plans came unstuck (see chart). Recently, the Japanese have begun to return, but this time with a difference. Before, it was China's vast domestic market that lured Japan's car companies, department stores and consumer-electronics firms. Now they want to produce for export back to Japan.



This is more revolutionary than it sounds. Japan's economic structure rests on a single idea, obsessively pursued: processed trade. Raw materials are imported, manufacturers add value, and finished products are exported. Companies invest abroad, but only to supply foreign markets. There is no place in this mercantilism for imported consumer goods. Japanese shoppers consider it their patriotic duty to buy from protected and exorbitantly priced domestic markets.

Yet the long economic slump has now upset everything. Cheap is now chic on Japanese high streets. A new generation of retailers has sprung up to serve the stylish poor. These retailers are cheap because they import. And the secret of their success is often to be found in China.

The model is Fast Retailing, a company that sees its Uniqlo brand of low-cost clothes not as fashion but as daily necessities, like food. Fast Retailing outsources its manufacturing, 90% of which goes to 60 Chinese firms. Between them, these 60 companies run 85 factories, the biggest of which employ 10,000

workers each. Fast Retailing itself, however, has just 80 people on its Chinese payroll. The company arranges its own shipping to Japan, or uses one of Japan's big trading houses. For distribution inside Japan, it uses three trucking companies, which together cover the company's network of 519 shops.

Other bits of Japan's ageing textiles industry are also off to China. Mitsubishi Rayon and Teijin, two textile manufacturers, have both been rejuvenated by Chinese investments. Juki Corporation, the world's top maker of industrial sewing-machines, plans to start production in Shanghai in the autumn.

The trend has begun to spread to the consumer-electronics industry. As part of a reorganisation of its Asian home-appliance business, announced earlier in July, Matsushita is shifting more production to China, and more of its Chinese production towards export markets, in America, Japan and elsewhere. Toshiba recently stopped making televisions in Japan, expanding production in China instead. Konica is outsourcing production of its digital copiers to Chinese firms. Sony plans to use Chinese manufacturers for its new games consoles. Japan's economy is faltering, and retail sales have been falling for years. Yet imports from China are rising by 30% a year.

Reimporting avoids Japan's famously labyrinthine distribution system

It is not just cheap labour that draws Japanese firms to China. Reimporting avoids Japan's famously labyrinthine distribution system. The agricultural industry is Japan at its most archaic. Thanks to a thicket of government regulations, protecting myriad layers of wholesalers, Japanese vegetables are wickedly priced and wrinkly to boot, having passed through so many hands en route to the supermarket. So the trading houses, which are barred from most agricultural markets at home, have gone to China. They have been helping Chinese farmers with seeds and spores, herbicides, fertilisers, refrigeration techniques and information on Japanese market prices. Despite the cost of transport, often by air, Chinese mushrooms, leeks, peppers, tomatoes and eels are undercutting Japanese retail prices.

Don't mention the war

Nor does the Fast Retailing business model ask too much of Japan's impoverished managers. Globalisation has not been kind to Japan's big companies, who find their inflexible ways at odds with practices elsewhere. Seniority promotion, the lifetime employment system and the dead hand of Japanese corporate bureaucracy are all anathema to the free-wheeling stock-option culture that attracts Chinese businessmen these days. “Japanese companies have tried to import the socialist system to China,” says Chi Hung Kwan of the Research Institute of Economy, Trade & Industry, a Japanese think-tank. “But the Chinese don't like it.” The usual Japanese answer is to create two systems, one for Japanese workers and another for foreigners. To foreigners, however, this smacks of racial discrimination, to which the Chinese are especially sensitive.

Manufacturing for export back to Japan avoids these problems. There is no need for local sales staff or knowledge of the Chinese market. If, on top of this, manufacturing is outsourced as well, Japanese managers need never confront the yawning divide between Japan and the rest of the world. Relationships, says Mr Kwan, can comfortably be kept at arm's length.

Not everybody in Japan welcomes the new business model. Newspaper columnists wring their hands about surging Chinese imports, the collapsing trade surplus and the “hollowing out” of Japanese manufacturing as the country's blue chips flee abroad. The outsized farm lobby within the ruling Liberal Democratic Party (LDP) is up in arms about Chinese vegetables and is urging the trading houses to be more patriotic. In April, the LDP slapped emergency tariffs on imported leeks, shiitake mushrooms and rushes, most of which are grown in China. The Chinese have retaliated with tariffs on Japanese cars, mobile phones and air conditioners.

Yet the Japanese have too much to lose to escalate this trade war, which will be even harder to wage after China joins the WTO later this year. Even the best Japanese manufacturers are struggling to stay ahead of cheaper Asian rivals. Salvation lies abroad: among Japanese manufacturers, only 14% of sales come from overseas production facilities, compared with 32% for American companies, according to the Ministry of Economy, Trade and Industry. Japanese consumers, meanwhile, are enjoying the novelty of affordable shopping. They do not want to return to high-priced, homemade goods. Japanese firms have to be in China, says Akira Kitaura, the Japanese manager of the clothing factory in Hefei. “They have no choice.”

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Malaysian corporate restructuring

Wrongs and Renong

Jul 26th 2001
From The Economist print edition

A good week for corporate governance, a bad week for crony capitalists

Reuters

Halim finds something to smile about

AN ACCOUNTANT of extravagant tastes, mediocre business acumen and impeccable political connections, Halim Saad has long symbolised the corporate culture of Malaysia. He benefited greatly from the “new economic policy”, a form of affirmative action that favoured the country's ethnic Malay businessmen. In the 1980s, he was picked to run Renong, a group of companies closely linked to the ruling political party. He has been winning government contracts to build motorways, telecoms networks and other bits of Malaysia's infrastructure ever since. For financing, Mr Halim has always relied on other people's money, making the Renong group the country's largest debtor.

Since the Asian financial crisis of 1997, Mr Halim has embodied all the reasons why international investors continue to shun Malaysia. He has refused to restructure his empire to repay his creditors. Instead, he has repeatedly appeared determined to fleece his minority shareholders in order to maintain control. In late 1997, for instance, shareholders in United Engineers Malaysia (UEM), a listed company that is part of the Renong group, were horrified to learn that UEM had bought a 33% stake in Renong at non-market valuations (Renong in turn owns 37% of UEM). To placate irate investors, Mr Halim promised to buy the shares back with his own money three years later, but he now seems unlikely to be able to do so in full.

All this explains why investors were so cheered when, on July 23rd, the government said that it intended to take over UEM—thereby, in effect, seizing control of Renong—in order to restructure the group in earnest. The offer price is low enough, according to analysts, to suggest that this is not a rescue. To drive the point home, the government added that Mr Halim “will have no role to play in the restructuring of the group”—in short, that he will be fired.

It is still possible to be cynical. Mr Halim is the most prominent of several notorious protégés of Daim Zainuddin, who recently resigned as Malaysia's finance minister after a clash with Mahathir Mohamad, the prime minister. Many Malaysians see the ouster of Mr Halim as part of a purge of “Daim's boys”.

Yet it is likely that the takeover of UEM also signals a genuine policy shift. Of late, Mr Mahathir seems to have grown tired of Malaysia's pariah status in world capital markets. Last week, he explicitly blamed Renong for dragging down the Malaysian stockmarket. Next month, a new code of corporate governance will take effect, requiring boards to have more independent directors, proper audit and remuneration committees and so forth. Plenty more Malaysian conglomerates are in dire need of restructuring, including the Lion Group and Johor. If they start to clean up too, that will show that the days of crony capitalism in Malaysia really are numbered.

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German brewers

Small beer

Jul 26th 2001
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Foreign brewers are finally entering Europe's largest beer market

AP

Pure and local

"THE first domino has fallen," Dieter Ammer, then president of the German brewers' guild (DBB), lamented last February. Heineken, Europe's largest brewer, had just bought minority stakes in two Bavarian breweries. Another has just toppled. On July 19th Mr Ammer put Beck's, his own company and possibly the most precious prize of all, on the block.

The entry of Heineken and the sale of Beck's could herald a big change in Germany's fragmented beer market. Germany is home to some 1,270 independent brewers, three out of every four in Western Europe. Other European markets are dominated by at most three national brewers, but even the ten biggest German breweries have only 56% of the market.

The great brewing families—Heineken, Anheuser-Busch and Miller—all emigrated from Germany and built global giants. But in their ancestral market, the number of dwarfs producing less than 5,000 hectolitres has actually increased. Many small brewers cater for tiny markets, particularly in Bavaria, where some villages with fewer than 2,000 inhabitants manage to support two or three breweries. "People in Germany generally have an aversion to buying beer from outside their state. People in Bavaria have an aversion to buying beer brewed outside their village," says Chris Wickham, an analyst at Lehman Brothers.

But many brewers barely break even. Prices have dropped by 10% in real terms since 1993. Their small size deprives them of pricing power, especially as retailers consolidate. And domestic demand for their product is falling, as Germans worry more about their waistlines and the ranks of young Germans shrink. In the past eight years, average annual beer consumption per person has fallen from 142 litres to 125 litres; Germans have yielded their place as Europe's biggest beer drinkers to the Irish.

One answer is to look for markets abroad, as Europe's big brewers are doing. But most German brewers are too small to build a national, let alone international, presence. Even Warsteiner, the leading brand, has only 8% of the German market. Beck's, with 8% of the American market for imported beer, is the only one that has managed to build a global brand.

Among the possible purchasers of Beck's, Interbrew, a Belgian brewer, is the front-runner. It is said to have won exclusive negotiating rights, after offering up to £1 billion ($1.43 billion). Heineken, which has already snapped up stakes in Kulmbacher and Paulaner, two Bavarian brewers, is unlikely to be interested: as one analyst puts it, "They have already got a beer in little green bottles, which sells in 170 countries around the world. Why would they want to buy another one that sells in 120 countries?"

With two heavyweights such as Heineken and Interbrew invading their $9 billion market, the pressure on German brewers is increasing. International brewers are likely to use the distribution channels of the German companies that they acquire to sell their industrially produced and thus far cheaper beer.

The *Reinheitsgebot*, a German purity law, may offer Germany's family-owned brewers less protection than it once did. Young people care about the rule less than their parents did. Mr Ammer, for one, has made his choice, arguing that Beck's could hold its own as an independent brewer only for another three to five years, before international competition starts to erode earnings. Others are likely to follow.

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OPEC

Trouble ahead

Jul 26th 2001
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Why the OPEC cartel is cutting its oil production now

HOPE springs eternal, at least at OPEC. Just three years ago, oil prices had collapsed to $10 a barrel, and the cartel was in complete disarray. Yet today, the group confidently aims to micromanage the price of oil.

In order to do this, the cartel's bosses jet off to their headquarters in Vienna every few months to thrash out new production quotas designed to tweak the world price. They were scheduled to meet again in August for such a meeting. However, this week they decided they simply could not wait: they agreed by telephone to a production cut of 1m barrels a day, effective from September 1st.

Why the rush? Oil prices have been comfortably above $20 a barrel of late. Yet the group's leaders, especially Ali al-Naimi, Saudi Arabia's cautious oil minister, have grown increasingly worried about three developments that influence the price of oil.

One is weak economic growth everywhere in the world, but especially in America and Japan. The second is the dramatic rise in oil stocks. After a couple of years of exceptionally low stocks, soft demand and aggressive refinery runs have led to a reversal. For example, a recent report from the American Petroleum Institute suggested that oil stocks in America have swelled by as much as 14% since March.

Even so, the oil politicians were sitting on the fence. They were mindful that production cuts that take effect in September will affect consumer markets only in November or December—by which time their main markets will be entering the peak winter season. The result of an ill-judged cut might be shortages and price spikes, which would anger western governments. Such an outcome would also violate the cartel's stated aim, repeated this week in a statement, to “avoid oil-price volatility”.

The clincher seems to have been a gloomy report released on July 13th by the International Energy Agency, a quasi-governmental agency representing big oil consumers. It said that world oil demand will rise this year by the smallest amount since 1998, when oil prices collapsed. It is the spectre of a return to $10 oil that moved OPEC to action.

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America's high-tech companies

Beyond the valley

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At the peak of the corporate-results season, three stories look at the entrails. First, what signs of a recovery for battered technology companies?

FOR America's high-technology companies, this earnings season has been miserable. More and more big names have joined the roll call of walking wounded: Amazon, for instance, in which AOL took a stake after the online bookstore had dropped its sales forecast for the year ahead; Lucent, which announced another $7 billion-9 billion of restructuring charges and job losses for a further 15,000-20,000 workers; and Xerox, which announced yet another quarterly loss this week.

Now the worst may be over. But a recovery in the autumn is unlikely; and beyond that, the future remains murky. “We don't draw conclusions. We ship computers,” said Scott McNealy, Sun's chief executive, after he had announced his company's first quarterly loss in 12 years. But behind the bleak news for high-tech companies is good news for their customers.

Hardware manufacturers have been hit hardest, with makers of telecoms gear in the deepest trouble—because they pumped up the bubble, with generous customer financing and overpriced acquisitions. Much of Nortel's $19.4 billion loss in the second quarter came from write-downs of acquisitions. Lucent sheepishly owned up to building a $45m executive golf course. Even better-run companies such as Juniper Networks are suffering. Its results beat Wall Street's reduced expectations, but badly missed earlier projections.

For chip and computer firms, the situation is little better. Semiconductor Equipment and Materials International, a trade association, predicts that sales of chip-making equipment will fall this year and not surpass last year's levels until 2004. IDC, a market-research firm, says that worldwide sales of PCs fell in the second quarter by 2% to around 29.8m. Small wonder that Intel's revenues in the second quarter were 24% down on a year ago.

As with past downturns, this one has triggered price wars, notably in the PC business. Led by Dell, which has the lowest production costs, PC makers have cut their prices, sometimes by as much as half. Margins are collapsing. Analysts are wondering which firm will be first to throw in the towel and quit the business. Gateway, which is taking Dell head-on, appears the most likely candidate. Compaq, which this week reported a loss in the second quarter and issued a profit warning for the third quarter, has announced that it will now focus more on the services business. Spending on IT services, along with software, is traditionally less volatile than hardware and is faring better.

Margins are collapsing, and analysts are wondering which firm will be first to go

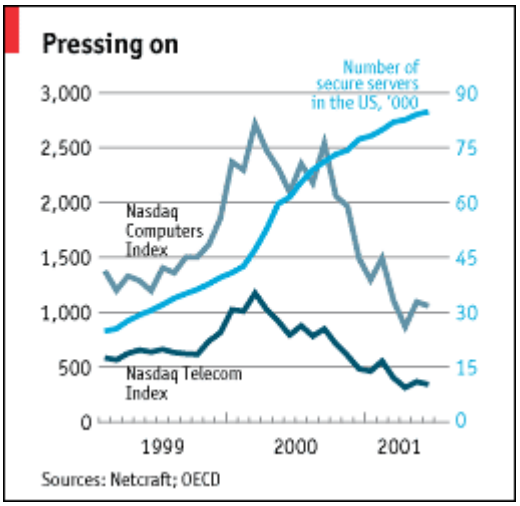
Yet software firms are starting to suffer too. Even Microsoft has said that its numbers will get worse, although it reported healthy results for the latest quarter. Companies are cutting costs, for instance buying programs purely to manage and optimise the IT infrastructure which they put in place, often hastily, in recent years. Instead of installing a new database from Oracle, say, IT managers might buy a much cheaper program from Quest Software to improve the performance of their existing databases.

Companies are unlikely to increase spending quickly, if recent surveys of chief information officers are to be believed. Among 50 American and 15 European officers queried by Merrill Lynch, an investment bank, almost three-quarters of respondents said they would not increase IT spending in the second half of the year.

Other studies, however, suggest that IT spending has at least stabilised. Based on 276 respondents, *CIO Magazine*, a trade publication, predicts that IT budgets will grow by 6% over the next 12 months. A

month earlier, the expected growth rate had been only 4%. And the Paris-based OECD, which uses figures from Netcraft to track the number of secure servers in its member countries, says that this indicator of commercial Internet activity has continued to rise (see chart). The reason, thinks the OECD's Sam Paltridge, is that many telecoms companies have been cutting prices for fibre-optic capacity and leased lines, so that businesses can connect to and use the Internet more cheaply.

With the trough at last in sight, the question on everybody's mind is: when will things get better? The consensus is around the middle of next year, except for telecoms-equipment makers, which may have to wait until 2003. By then, the tech bubble will have deflated; and Microsoft's new operating system, Windows XP, due on October 25th, could lead many firms to upgrade their PCs and related software.



The more interesting question, however, is how fast the IT industry will grow once it has recovered from past excesses. In a subjective but intriguing exercise, Goldman Sachs got its analysts to recalculate the results of 37 leading technology companies, stripping out the factors that had led to the bubble in IT spending. Without them, the bank reckons that the technology revenues of these companies would have been $43 billion lower in 2000—or 10% below the published figures.

These results suggest that, once it picks up again, worldwide IT spending will again grow at about 10%, as it did before the bubble. Other analysts, such as Steven Milunovich of Merrill Lynch, are glummer, predicting growth in the “high single digits”. Much will depend on how badly companies think they need more gear to stay competitive. Almost everybody says that less technology would have been more in the past three years—even if only Luddites argue that firms should now do without.

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Pharmaceuticals

Health check

Jul 26th 2001
From The Economist print edition

Good company results suggest that the drug industry is in excellent condition

GIVEN all the bad news of recent months, the pharmaceutical industry should surely be sickly. High-profile product failures, job cuts and corporate restructuring, allegations of collusion with generic-drug makers to spin out precious patents, and the furore over drug pricing in America and Africa all point to an industry with a touch of cold.

But a clutch of company results this week show the biggest firms to be generally in fine fettle. On July 24th GlaxoSmithKline reported that its second-quarter pharmaceutical sales had risen by 12% over the previous year to just over £4.3 billion ($6.1 billion), and that net profits were up by 13%. Pharmacia's news, on July 25th, of a second-quarter profit rise of 20% and a 7% increase in drug sales, followed an even stronger showing the week before by Pfizer, which reported a 31% rise in second-quarter net profits on the back of a 14% growth in human pharmaceutical sales.

As the risks of drug making increase, so do the differences between the companies: ten years ago, they were all winners, but now some look more bruised than others. Merck, for example, issued a profit warning before last week's results, citing the slow uptake of its anti-arthritic drug. Schering-Plough reported flat second-quarter sales and profits. It is still plagued by manufacturing problems, which have prompted the Food and Drug Administration (FDA), America's drug regulator, to raise concerns about its facilities.

The FDA is causing headaches in other ways too. The agency has ordered four prescription drugs off the American market in the past 18 months because of safety concerns. That drugs are reaching the market before such shortcomings are revealed is due, in part, to a move by drug firms into new therapeutic areas with tricky science; it also reflects their hurry to get through clinical trials to steal a march on rivals, and the FDA's long-standing attempts to expedite its approvals process.

But pressure from consumer groups and collective insecurity at the FDA, which currently lacks a director, mean that the agency is now erring on the side of caution again. Delays in reviews, demands for more data and outright rejections have reached “epidemic” proportions, according to Joseph Dougherty of Lehman Brothers; Pharmacia, Novartis, Eli Lilly and Pfizer are among those whose products have recently been held up by the FDA. On present trends, Mr Dougherty reckons that only three-fifths as many new drugs will be approved in America this year as in 2000. Since America accounts for roughly 40% of the world's $360 billion prescription-drug market, not selling in America is bad for drug firms, whose shares have lagged the S&P 500 for most of this year.

Drugs that falter in development, or come off-patent, are less of a problem if there is a steady stream of new products to take their place. But pipelines at some firms, such as Merck, are distinctly empty these days. According to some assessments, home-grown discovery is also disappointing. Ann Baker of Accenture, a consultancy, says that most firms are nowhere near their goal of tripling the output of molecules for clinical development. Their hopes that genomic information and other new tools would dramatically improve drug making are justified, but certainly not as fast or as cheaply as they once expected.

However, compared with the ailing technology sector, even the pharmaceutical industry's laggards look healthy. And, despite some threats to the industry's profitability, such as various legislative moves in America to increase generic competition or clamp down on drug prices, drug makers have one inexorable fact of life—sickness—on their side.

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European engineering

Waving or drowning?

Jul 26th 2001 | FRANKFURT
From The Economist print edition

A string of gloomy news from Europe hides a patchier picture

WHAT a wretched week. ABB, a Swiss-Swedish electrical engineering firm, issued a profit warning and said that it would cut 12,000 jobs in the next 18 months. Ditto Britain's Invensys, where 6,000 workers will go this year—including the chief executive, Allen Yurko. Then Siemens, a German engineering giant, reported a loss (after stripping out one-off items) in the three months to June. Infineon, a semiconductor maker of which Siemens owns 51%, was said to be mulling 5,000 job losses.

Further evidence that Europe is catching America's cold? It looks like it. Economists have been getting gloomier about Europe's prospects. Invensys blames “the worst recession in US industrial production since the 1970s”; Europe, it adds, “is weakening rapidly”.

Whoa. True though all this is, there is more to these travails than a simple transmission of American weakness to Europe. Much depends on which business you happen to be in. Even within Siemens, a sprawling conglomerate of a dozen or so divisions, the differences are stark. In telecommunications, times are hard, as they are everywhere. The mobile-phone business (ICM), which it tried to expand just when the industry was stalling, and fixed telecommunications networks (ICN) have lost over *euro*600m ($530m) between them so far this year. The head of ICN, Roland Koch, quit this week.

Meanwhile, Siemens's transport-systems and power-generation businesses are roaring; its automation division has also done well. In power, points out Colin Gibson of Goldman Sachs, it is benefiting from an American boom (sic), as utilities dash to build power stations after years of underinvestment. Other electrical engineers have been less lucky. Utilities have yet to invest in the electricity-transmission equipment that this is likely to require—and in which ABB specialises. Invensys's forte is fancy electronics, for instance to ensure an uninterrupted power supply. Its customers are electricity users rather than suppliers, and it does a lot of trade in the United States, so it has suffered as American business has flagged.

How many more shocks await Europe's companies? Naturally, that depends on American growth, but it also depends on the usual mixture of luck and judgment. Siemens did well, in retrospect, to buy America's Westinghouse, a power-station builder, in 1998 and thus to catch the coming wave. A few months ago, Invensys's Mr Yurko was expecting only a mild slowdown in American demand. How wrong he was.

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Face value

A ray of Sun

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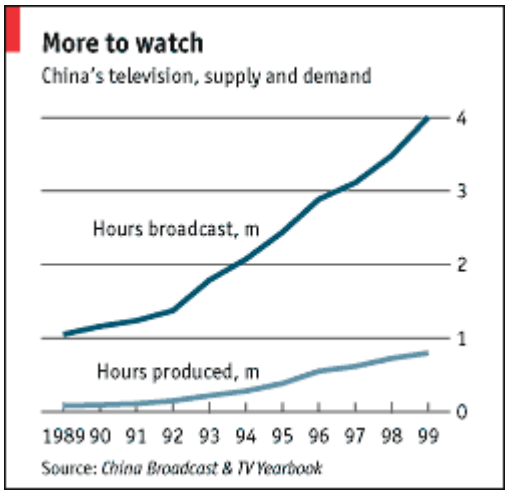
Yang Lan, a talk-show host, plans to shake up Chinese television

POLLSTERS recently asked people throughout China whose refrigerator they would most like to peek into. Predictably, many opted for Gong Li, a film star, and Zhang Yimou, a director. But the overall winner was Yang Lan, a 30-something mother of two toddlers. “All they would find is baby food,” says Ms Yang. Ever since she hosted a talk show on China's state-run television in the early 1990s, her face has been the most popular in the country. After all, with more than 200m viewers, she was once, as she puts it cheerfully, “far bigger than Oprah, though not by weight”.

This is a promising base for Ms Yang's newest ambition. Last year, she and her husband bought a shell company in Hong Kong and turned it into Sun Television Cybernetworks (Sun TV), which produces Chinese-language television content and broadcasts it via satellite. In authoritarian China, the Communist Party supposedly controls all terrestrial and cable stations. There are no domestic privately owned satellite channels. Foreign companies and those from Hong Kong such as Star TV, a subsidiary of Rupert Murdoch's News Corp, are allowed to broadcast only to fancy hotels and expatriate compounds. Ms Yang's company faces exactly the same constraints.

However, she has plans to meet the huge demand for intelligent, educational and enjoyable TV programmes in China. The country is not just ready but desperate. Some 300m households in China now have television sets, and are glued to them every night. The government requires domestic stations to run the channels of CCTV (China Central Television), an arm of the propaganda ministry.

Overall, the country's 1,080 television channels broadcast about 4m hours of content. But the country produces less than 1m hours (see chart), and much of that remains Communist propaganda of the not-so-gripping sort. China's domestic stations are therefore allowed also to buy some privately produced content. In theory, this should not come from “foreigners”, such as Sun TV, but in practice the authorities turn a blind eye. In this grey market lies Ms Yang's big opportunity—and big risk.



The politics of television in China is certainly nerve-racking. Nobody knows this better than Ms Yang herself. Indeed, rising to such challenges appears to be her calling. In 1990—just after the Tiananmen Square massacre—middle-aged Communist battleaxes had a firm monopoly as anchorwomen on CCTV. Ms Yang, just 21 at the time, applied for an opening anyway, and to her own surprise was chosen. She was fresh, charming and provocative, and the country soon fell in love with her. But then, at the height of her fame and to general puzzlement, she quit and enrolled at New York's Columbia University to become a student again—one of anonymous thousands in a foreign land.

In New York, she met Bruno Wu, her future husband, who ran a media consultancy and came from an elite Shanghai family. After graduating, Ms Yang had job offers from American television, but she turned them down. What she wanted above all was to participate in the dramatic changes at home. So she joined Phoenix TV, a Chinese broadcaster in Hong Kong that is part-owned by Star TV. There she became a sort of Chinese Barbara Walters (a veteran American broadcaster known for squeezing emotion out of her

interviewees). Before long, record audiences were once again tuning in to watch Ms Yang's interviews, which were unusually intimate and often moving. Ms Yang saw China as a land of untold stories, and her mission as their telling.

Star turn

To tell them properly, however, she needed a new vehicle. So she walked out of Phoenix and, with Mr Wu, who handles the company's finances, started Sun TV instead. “Educated people don't watch television, because it has nothing for them,” she says, and that is what Sun TV will try to change. Take, for instance, history. For a country that likes to brag about its 5,000-year-old civilisation, China's has a striking dearth of any propaganda-free programming that chronicles it. Sun TV will have programmes on love, marriage and concubines in old China, on the lives of emperors, and even on such ancient Cantonese professions as ear-picking.

Will such worthy stuff make money? Although Sun TV is barely launched, Ms Yang claims that its programming already reaches more than 30m households. It lost $16m in 2000, but will break even this year, she insists, and make profits after that. Certainly, there is potential: although China's average viewer is still poor, its advertising market is already the second largest in Asia after Japan, and it is the fastest-growing in the world.

Yet TV broadcasting in China faces commercial as well as political pitfalls. One is “ad-splicing”. Advertisers love Sun TV because it reaches well-heeled viewers, and they know that many cable stations carry its programmes even though they are not supposed to. But those cable stations often cheat, by cutting out SunTV's advertising and replacing it with their own. Worries about advertising revenues have recently hit the share price of Phoenix, Ms Yang's former employer.

Then there is the Damocles sword of censorship. Sun TV's strength, says Ms Yang, is that “we're not a propaganda tool, so we don't have to make programmes that people don't want to watch.” But she cannot afford to fall foul of the cadres either. “It's a tightrope,” she says, “but we still believe we're doing something positive for China.”

One side-effect of China's rapid economic transformation, she thinks, is a spiritual and intellectual vacuum: “After being well-fed, the Chinese will need more food for the mind.” Feeding them, even more than making profits, is doubtless her main motive. But it is profits, more than good intentions, that keep a company going—even when its boss is a star.

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Stock exchanges in Europe

The hunt for liquidity

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Competition among Europe's stock exchanges is keener, thanks to bear markets, new technology and the euro. Liquidity and trading costs will decide who wins

Get article background

AS BUSINESSES go, stock exchanges are rather curious. They are under pressure to consolidate, yet trading platforms proliferate. Considerable economies of scale exist in their activities, yet tiny upstarts and small national exchanges can do well. Exchanges ought to be run like multinational companies, yet they are too often still the financial markets' equivalent of the national football team.

America has only three national and five regional exchanges, but Western Europe still has more than 30 stock exchanges. Most will probably not survive the next ten years. Some will be taken over, others may simply shut down. And one or two are likely to emerge as dominant forces in the cross-border trading of blue-chip shares, the highest-profile and most lucrative bit of the industry.

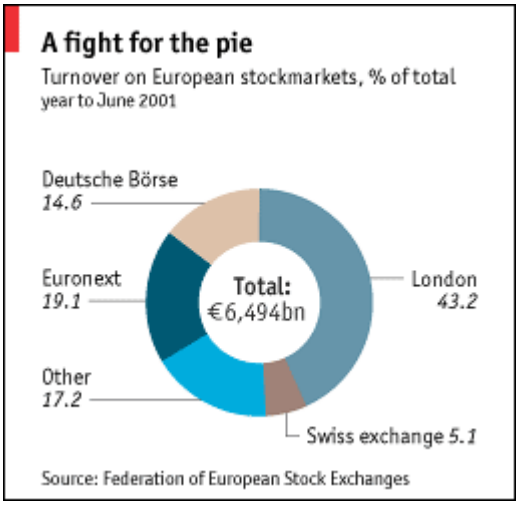
This race for the top spot is different from competition in other businesses. For a start, many exchanges in Europe are only now beginning to be run as proper companies, rather than as member-dominated public utilities. The three biggest, the London Stock Exchange (LSE), Deutsche Börse and Euronext (the merger of the Paris, Amsterdam and Brussels bourses), have just shed their mutual structure. The LSE became a fully listed company on July 20th, Euronext went public at the beginning of the month, and Deutsche Börse made its stockmarket debut in February.

More than ever, exchanges will now have to find out what exactly their customers want. This ought to be self-evident: a cheap and effective trading system. But it is not that simple. Certainly, those who trade on stock exchanges want low direct costs—that is, brokers' commissions and fees for confirming a trade, for clearing it (registering a share's new ownership) and for settling it, when money changes hands. Yet they also want low indirect costs, in the form of narrow dealing spreads—that is, the difference between buy and sell prices. The more liquid a market is, the narrower the spreads and the less prices are moved by quantities of orders. Liquidity, as one trader puts it, is “what gets business away”. It is the best measure of a stockmarket's cost-effectiveness.

Liquidity will thus be key in determining the winners and losers in this battle of the bourses. And liquidity comes with size, one of the reasons why stock exchanges are often described as natural monopolies. On this measure, the LSE is still some way in front of its rivals. It attracted more new listings last year than either Deutsche Börse or Euronext, with higher turnover (see chart). Still, London will have to pedal hard to keep ahead, for continental rivals as well as young upstarts are catching up. On its first day of business, Virt-X, an electronic exchange launched in July, pinched 23% of all trading in Britain of the shares of GlaxoSmithKline, a drugs company.

Given the steep increase in trading activity over the past few years, there ought to be liquidity aplenty. Cross-border equity

portfolio flows in the world's developed markets are reckoned to have quintupled in the past five years, to $1.1 trillion. European flows have grown by even more. The launch of the single currency has set in train a huge reshuffling of portfolios. Institutional investors in Europe now tend to judge sectors almost entirely from a pan-European not a national perspective.



Yet liquidity is by no means abundant. Cross-border equity flows appear vulnerable to sudden drying up. This has been especially true since Russia's default on its bonds in August 1998, followed by the collapse of Long-Term Capital Management, a hedge fund. Subsequently, international investment banks and asset managers have only slowly recommitted risk capital to trading equities.

Other, more structural, factors also point to a dearth of liquidity. The rise in the number of international investors has led to a demand for tradable securities that is not matched by supply, notes Avinash Persaud at State Street, an American bank. Liquidity is squeezed by these investors' tendencies to act alike: models for managing short-term risk promote similar investment patterns.

Still, while liquidity remains tight, trading costs have come down—mainly because computers are replacing people as trading is automated. However, though costs in Europe vary greatly, they are generally still high. Benn Steil, at the Council on Foreign Relations in New York, puts this down to the heavy European use of intermediaries (that is, old-fashioned stockbrokers) when executing trades, and to Europe's painfully high costs for clearing and settlement—which can be as much as ten times more than those in America.

Low costs are the chief selling-point of the upstart exchanges in Europe. Thanks largely to their having found more efficient solutions for clearing and settlement, Virt-X and Jiway, an electronic exchange for retail investors, are much cheaper than the established bunch. Virt-X, for instance, offers a “multi-settlement” system that encourages a certain amount of competition on price between Euroclear, Crest and SIS, the three big settlement agencies. From a survey of market participants, Virt-X claims that the average cost of cross-border equity trades in Europe is between *euro*10 ($8.50) and *euro*80, while the average cost at Virt-X is only *euro*2. Jiway offers retail brokers a one-stop shop for pan-European share-dealing and settlement for 6,000 different shares.

Although it might make sense for stock exchanges to join forces, many bourses in Europe fiercely defend their turf, preferring to carry on independently. Merging exchanges allows liquidity to be pooled; it also offers the means for more efficient clearing and settlement. Here, the Germans and the British do not see eye to eye. Deutsche Börse is all for alliances, such as its union with the Vienna Stock Exchange, but it does not want to give up its vertical “silo”, which includes its own clearing and settlement through Clearstream. The LSE does not rule out mergers either—perhaps with Virt-X, or even with Liffe, London's derivatives exchange. But it wants to see settlement systems consolidated, favouring a merger between Clearstream and Euroclear. Deutsche Börse wants these to remain separate; one mainly settles equity trades, the other chiefly bond transactions.

Whether exchanges forge alliances or go it alone, the challenges of attracting and retaining liquidity will prove formidable. Cheaper technology allows trading systems to multiply. Traders can look instantly for the best prices. Orders can swiftly be re-routed. That means that exchanges with an apparently impregnable franchise can lose it almost overnight—something that no longer makes for sound sleeping for those who run them.

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European Bank for Reconstruction and Development

Taking on Turkmenbashi

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The EBRD is starting to take its democratic mandate seriously, but will its undemocratic clients?

Reuters

The gilded Mr Niyazov

THIS week the European Bank for Reconstruction and Development (EBRD) sent an open letter to one of its members, Turkmenistan, objecting to the lack of democratic as well as economic change in the country. The bank was established with public money in 1990, with the main aim of fostering market economies in formerly communist countries. Over the past year or so the EBRD has put a new emphasis on trying to promote democracy. Now it has issued a threat: if Turkmenistan's ruler, Saparmurat Niyazov, does nothing to change the situation in his country over the next year, it may stop lending there.

Under Mr Niyazov's one-party, authoritarian leadership, the bank observes, political opponents and religious minorities are persecuted, and Turkmenistan's citizens lack freedom. They cannot, for instance, leave the country without an exit visa. On the economic front, the bank's lending to small businesses has been thwarted by restrictions on access to foreign currency. The EBRD also worries about what Mr Niyazov is doing with Turkmenistan's $1.7 billion “foreign-exchange fund”, a pot of money worth about 60% of the country's GDP, which comes directly under his control and does not form part of the state budget.

Mr Niyazov, whose latest bit of despotism is to decree that foreigners must pay $50,000 to marry into the Turkmen race, may well ignore the EBRD's letter. After all, the bank remains committed, for now, to its biggest venture in Turkmenistan, a $75m loan facility to Dragon Oil, majority-owned by Emirates National Oil Company. The bank has not ruled out financing the development of another hydrocarbon field, this time with Burren Energy, a British oil and shipping company. For some at the EBRD, this would be an embarrassment. Mr Niyazov benefits personally from the EBRD's lending to such projects, because production-sharing agreements allow for part of the revenues to go straight into his foreign-exchange fund.

No one in Ashgabat, Turkmenistan's capital, is expecting any political transformation as a result of the EBRD's new hard line. When Charles Frank, the bank's second-in-command at the time, went to express his concerns last year, Mr Niyazov refused him an audience. And the EBRD does not lend a great deal in Turkmenistan, relatively speaking. The total value of its four projects there, *euro*155m ($136m), forms only a small portion of foreign direct investment, which in the field of natural resources alone came to $500m last year. The country can get hard cash by selling its natural gas to Ukraine, Russia and Iran. Still, the EBRD hopes that its letter will have an effect as a warning signal to western energy companies—who, let us face it, are not easily put off by an unpleasant political regime.

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Russia and the WTO

Playing by the rules

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For Russia to join the WTO, there is no shortage of goodwill—nor of obstacles

SO HOW does your system work? That is the first question that countries wanting to join the World Trade Organisation (WTO) have to answer. Russia's negotiators have found it hard to explain their country's murky and capricious business environment.

Russia is keen to join the WTO, and over the past year has started taking the negotiations much more seriously. Now that China is about to join (after a 15-year slog), Russia's absence from the body that governs world trade is all the more embarrassing and conspicuous. Other ex-Soviet countries have joined, including Georgia and (this week) Moldova.

The WTO's member countries also want Russia in. On one level it looks like a straightforward case. Unlike China, even the most blinkered protectionist need not worry about a Russian flood of cheap, competitive manufactured exports—weapons and vodka, perhaps, aside. What western countries really need is a rules-based system for their companies that do business in Russia.

The first obstacle is a fundamentally squishy way of doing business. Even under this reform-minded government, rules, subsidies and taxes vary wildly depending on your political connections, what you do and where you do it. Such preferences and hurdles can all be negotiated, certainly, but only after Russia has managed to give a convincing account of the overall picture.

The details are trickier still. The WTO's founding document has 27,000 pages. Lots of fiddly changes to Russian laws and rules are needed—notably in areas such as intellectual property. Then, when the papers are right, Russia must convince outsiders that the new regime will apply in practice.

When talks deal with the nitty-gritty, however, Russian negotiators get huffy. Last month they stomped home, cross that things were going so slowly. “We came here to negotiate, and all they want to talk about is legislation,” says one official, revealingly clueless about the nature of the WTO. What particularly annoyed the Russians was an innocent suggestion from Australia that laws being rushed through parliament in Moscow could benefit from a bit of informal advice from WTO members while in draft form. That would, after all, be easier than having to amend the laws later. Russian officials saw this as an atrocious attack on their country's dignity.

Membership cannot come soon enough. Russia's main economic problems now are at the micro level, chiefly the way that corrupt and incompetent bureaucrats overlap with business. Bodies like the tax inspectorate, the customs service and the prosecutor's office are largely unaccountable; WTO rules may help to make them behave.

The prospects have improved. Diplomats say the talks may now take five years, not ten. By comparison with Saudi Arabia, which has been trying to reconcile feudal theocracy with WTO legality since 1993, Russia has a lot of the basics in place, even if they still work extremely badly.

At the next big WTO meeting in Doha, in November (see article), members will be eager to see how far Russia is prepared to grapple with the issues, and how far it is going to keep trying to play politics. Fitting a large, proud and badly run country into a rules-based system is not impossible: China's impending membership is proof of that. But Russia so far seems to assume that, as a great power, it has a self-evident right to join the WTO, and that the details can be left till later. An attitude guaranteed not to impress.

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Lloyd's of London

An acceptable risk

Jul 26th 2001
From The Economist print edition

After the worst decade in its history, Lloyd's may be emerging from its funk

ASBESTOSIS. Pollution. Oil spills. Hurricanes. Plane crashes. The bell has rung at Lloyd's for one insufficiently reserved insurance disaster after another since the early 1990s. On July 20th came what seemed to be more of the same, with the bad news this time from Equitas, an entity created in 1996 to take on outstanding pre-1993 liabilities at Lloyd's. For the financial year to March, some £84m ($124m), 11% of Equitas's surplus, was shifted into reserves in response to higher than expected asbestosis losses. As well as asbestosis, there lurks the fear of tobacco claims in America, Lloyd's biggest market.

It is easy, therefore, to miss the glimmer of better times ahead. For a start, the news from Equitas was not as bad as had been feared. Indeed, one leading insurance-rating agency, A.M. Best, is now thinking about lifting the “negative” outlook that it had pinned on Lloyd's, thanks primarily to Equitas's performance. Claims other than for asbestosis have been settled at “favourable values”, that is, for less than had already been reserved against.

Just as important for Lloyd's, some aggressive competitors have gone, leaving an altogether healthier landscape. Over the past 18 months, Reliance in America and most of the Australian reinsurance industry have, in effect, gone bust. The survivors, including Lloyd's, have suddenly found it possible to raise premiums. There were big increases in July, which followed earlier rises in January, and there seems to be every chance of more to come. New areas of businesses are opening up to Lloyd's that particularly suit its traditional skills in underwriting unusual risks, notably those tied to e-commerce and intellectual property.

Recovery at Lloyd's started last year, after it ran up estimated losses of over £1 billion in 1999. This year, A.M. Best reckons, underwriters at Lloyd's will come close to breaking even. Next year, there will be real profits. Underwriters appear to believe this too. Between 1995 and 2000, the market's total capacity was stuck in the £10 billion-11 billion range. This year, capacity has crept up above £11 billion, and Lloyd's says that the initial signs are that it will grow by at least 10% in the coming year. One Lloyd's underwriter predicts a 20-30% rise in capacity. In a telling move, a new Lloyd's syndicate is being launched by AIG, a hard-nosed American insurer that never passes up a buck.

Lloyd's itself is belatedly adopting business practices with which private companies have long been familiar. Notably, the central marketplace is outsourcing as much as it possibly can. Over the past two years, says its chief executive, Nick Prettejohn, the number of people working at Lloyd's has fallen from 2,000 to 600, with another 100 due to go as everything from data services to catering is put out to contract. If Lloyd's underwriters prove as disciplined in their pricing as Mr Prettejohn is in his cost-cutting, then Lloyd's could indeed be turning the corner.

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Structured finance

CDO—not cash on delivery

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From The Economist print edition

“Structured finance” can bring unstructured losses

THE chairman of American Express, Kenneth Chenault, was man enough to admit last week that his outfit “did not fully comprehend” the risk underlying a portfolio of whizz-bang investments known as CDOs (collateralised debt obligations). One arm, American Express Financial Advisors (AEFA), piled into CDOs and other high-yield, high-risk investments in 1997 and 1998. Earlier this year it began to realise that the cashflows on its $3.5 billion portfolio were lower than expected, because of high rates of corporate default. Alarms rang, and American Express has now reduced its exposure, taking an $830m charge.

The tip of an iceberg? The investment banks and rating agencies that create, rate and sell these products, insist that it is not. Moody's Investors Service, one rating agency, has figures to show that CDO ratings are downgraded less readily than the underlying corporate debt that the products contain. This does not, however, mean that investors lose less cash.

CDOs are strange contrivances, to be handled with care. They were invented to take loans off commercial banks' balance sheets. They are sliced and diced packages of corporate loans, or other financial assets, made up of varying levels of risk. Often, the top slice is AAA, the highest investment grade, with a very great likelihood of repayment until maturity (up to 12 years down the line). The top slice is protected by the fact that the bottom slice will take the first losses; if that is wiped out, the next slice bears the brunt, and so on, up to the AAA tranche. But for the game to work, somebody has to hold the bottom slice, often known as the “equity” tranche or, less kindly, as the “toxic waste”.

In 1997 and the first half of 1998, before turmoil hit world capital markets, the equity tranches sold briskly along with all the other tranches. CDO sales rose to $80 billion in 1998, and to about $140 billion a year thereafter. Yet despite eager buyers for the higher tranches, the creators of CDOs have, since 1998, often been unable to sell the bottom tranche, forcing them to hold on to it themselves. Some of the bottom tranches that American Express holds are toxic waste from its own deals. For AEFA also creates CDOs, despite the admission that American Express did not fully comprehend the risk.

Yet if there is an iceberg, it is not to be found in the bottom tranches, which typically account for only 6-10% of a CDO. It is more likely to be hidden in the deteriorating quality of the higher tranches. Here, it is hard for an investor to see what is happening. The tranche is rated by a rating agency (on the basis of limited experience and less than a decade of data) and managed by an asset manager. Often the manager can pick and choose the credits in the pool, within the rating agency's crude rating band. “The nightmare of the CDO rating agency analyst,” says a CDO handbook published by J.P.Morgan Chase, a bank, “is the manager who buys the most risky credits within rating categories.” Yet rating agencies—for “business reasons”, an investment banker admits—have been drawn in to rating these beasts, despite the shortfall in transparency. This makes for part of an unholy alliance.

The other part is the great attraction to banks of getting these loans off their balance sheet. For every $100 of corporate loans on their balance sheets, regulators insist banks must hold at least $8 of capital, regardless of the quality of the loan. If it is held in a non-bank affiliate, such as AEFA, there is no regulatory capital charge. So there is a powerful incentive to sell higher-grade but lower-yielding loans, with a subsequent decline in the quality of banks' balance sheets.

Bank regulators have tried to respond to this trend by drafting new rules on bank capital. But the latest proposals, to charge banks according to their own assessments of credit quality, are back on the drawing board. Why? One reason is precisely that they fear banks will still run rings round them, “gaming” the system with products such as CDOs. In the face of deteriorating credits, particularly in telecom and technology companies, these CDO risks will become more obvious.

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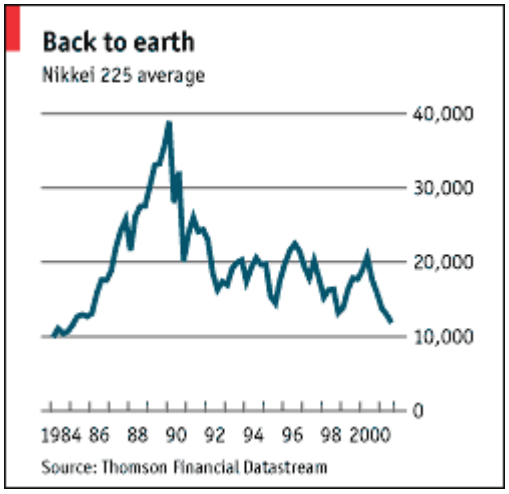
Japan's stockmarkets

Thank you, Mr Shiokawa

Jul 26th 2001 | TOKYO
From The Economist print edition

Sinking to old lows



STOCKBROKERS simply haven't been selling shares at the right prices. That, more or less, was how Masajuro Shiokawa, the finance minister, explained Japan's tumbling stockmarkets on July 23rd, when the benchmark Nikkei 225 fell to a 16½-year low (see chart). Another reason why share prices were so weak, he added, was that the brokers weren't marketing enough equity-based investment trusts.

Mr Shiokawa's swift response —he called the head of the securities industry organisation and urged him to rectify these flaws—worked wonders. Japanese shares rose the next day. But the climb may be brief. Three months ago investors had high hopes of Junichiro Koizumi, the incoming prime minister, who promised structural reform. Today, they are disappointed by his lack of progress. Meanwhile, Japan's sickly economy only looks worse. Industrial production is falling sharply, and consumption continues to disappoint. Corporate profits are sliding, and now there is no strong American economy to help.

The government will almost certainly try to boost the economy with a supplementary budget in August. But this causes unhappiness all round. Those who favour yet more government spending are upset over Mr Koizumi's refusal to commit himself to another budget. No matter that the prime minister will probably do it once the election for parliament's upper house this weekend is over. His coyness, they argue, has knocked market confidence over the past couple of weeks.

Those seeking a fresh approach, on the other hand, fear that a combination of extra spending and scant reform leaves Japan exactly where it was under Yoshiro Mori, the previous prime minister, who was both inept and unpopular. Mr Koizumi, who is fond of pledging supply-side reform without explaining what it will actually entail, will not be able to get away with mere sound bites any longer. After this weekend's election, he will have to come up with real strategies, which he will then have to blend with the plans for fiscal stimulus desired by his party.

For the stockmarket, this suggests bumpy times ahead. Thank goodness, then, that Mr Shiokawa will know exactly what the problem is.

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Merrill Lynch

Waiting for the man

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An heir-apparent chosen

ON JULY 24th, not long after reporting dismal profits and an unremittingly tough environment, Merrill Lynch resolved a succession battle that had been closely watched on Wall Street. Stanley O'Neal, whose career started on a car assembly line and whose grandfather was born a slave, was named president and putative successor to David Komansky, the investment bank's long-serving chairman and chief executive.

Mr Komansky is not due to retire for three years. So, on the face of it, the attention given to his replacement looks premature. Yet Merrill has long moved early to place future chief executives in the number two spot. With Merrill, like the rest of Wall Street, thinking about deep cuts in costs, a leadership battle would only have made these decisions harder.

For the past 18 months, Mr O'Neal has led the firm's vast stockbroking arm, the traditional spawning-ground for its leaders. He cut costs there, which did not particularly endear him to staff. More profoundly, he furthered a change in what drives Merrill's business, with less emphasis on salesmen and more on managers. For decades, every customer, large or small, had a personal broker providing everything from stock tips to retirement planning. The model became frayed. Under Mr O'Neal, customers have been segmented according to wealth, the complexity of their demands, and how much profit they produce compared with the effort to serve them. Merrill now provides as little to some customers as an Internet connection, or as much as a dedicated team.

Merrill's leaders have often epitomised the American dream of starting with nothing. Mr Komansky's father was a postman. Mr O'Neal's first home lacked running water. The family's prospects improved when his father left farming for a job at General Motors; the car firm hired young Stanley under a programme that let him switch between a term on the assembly line and a term at GM's private university. It sent Mr O'Neal to Harvard Business School, then brought him back to its New York treasury office. He joined Merrill in 1986.

In recent months, there had been speculation that Mr O'Neal would lose out to another candidate. Factions had begun to form. With the decision made, a quiet period is likely to ensue, followed by a burst of changes. The real succession at Merrill has only just begun.

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Climate change

What next, then?

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The EU has averted the collapse of a UN treaty on global warming

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AGAINST the odds, European negotiators emerged triumphant this week from the Bonn conference on climate change. When the world's environment ministers gathered to negotiate the final details of the Kyoto Protocol, a UN treaty on global warming, the prospects of a deal looked poor. In the event, they pulled off a deal that 178 countries (though not the United States) signed up to.

Greenpeace/Molinari

Adding hot air to the debate

How did they manage this? The Europeans were so desperate not to fail that they were willing more or less to give away the store. Three factors forced the EU to soften its previously rigid stance. First was the memory of the collapse of an earlier round of talks held in The Hague last November, when a moralistic EU team rejected sensible proposals for more flexibility made by the Clinton administration.

Soon after that fiasco, George Bush came into office—and promptly declared that he would have nothing to do with Kyoto. That, too, helped to focus minds in Bonn. The third factor was that the EU desperately needed Japan's ratification, without which the treaty cannot enter into force at all. To win that support, negotiators changed tack on the use of carbon “sinks” and flexible trading mechanisms that should reduce Kyoto's cost.

The irony is that the deal agreed in Bonn looks very much like the version that America was ready to sign up to in The Hague. Yet Mr Bush is unmoved. He has made it clear that he will never accept any version of the Kyoto treaty. This creates a huge problem, as any international treaty hoping to tackle this most international of problems must (in the long run, at least) include the United States, the world's biggest energy guzzler.

Will it ever happen? Optimists point to signs of a backlash in Congress and among some parts of American industry. Several senators and congressmen now have domestic legislation in the works. A number of big industrial firms, including even some coal-fired utilities, fret that Mr Bush's stance creates so much short-term uncertainty that they will not be able to make sensible investment decisions in long-lived assets such as power plants. They, too, are pressing for domestic regulation.

Eileen Claussen's Pew Centre represents several dozen big American firms (including United

Technologies, IBM and DuPont) that have publicly called for action on climate change. She reckons that this backlash could add up to a new climate-change strategy. Start, she says, by setting clear rules for recording and disclosing greenhouse gas emissions. What is then needed is a mandatory emissions-trading system. Designed properly, “such a system could be made compatible with the Kyoto framework in the hope that some day the two could be merged.”

Maybe. But in the long run, America will be “merging” not with Bonn but with what comes after Bonn. This week's flexible pact deals only with the treaty's first time period (till the end of this decade or so) and calls for no cuts in emissions by poor countries. By 2005 or so, the next big round of negotiations over the following decade's cuts will be under way—and China and India, not just the EU, will be involved. Developing countries have already made clear their central demand: that emissions targets be based not on political and economic might, but on population. That could prove a bigger obstacle, even, than Mr Bush.

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Economics focus

A global euro?

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Will the euro ever rival the dollar as an international currency?

Get article background

IT IS one of the great mysteries of economics: why do forecasters get things so wrong, so often? In the case of the euro, they were spectacularly wrong. Ever since its creation, the euro has fallen, against all expectations, as financial markets have continued to express a clear preference for holding dollars rather than euros. Has this fatally weakened the euro's prospects of rivalling the dollar as an international reserve currency?

The world has grown so used to the dollar's dominant role as the most widely used hard currency that it is difficult to remember that it was once (in the late 1970s, for instance) chronically weak, and equally difficult to contemplate future change. By the late 1990s, more than four-fifths of all foreign-exchange transactions involved the dollar. Nearly half of world exports are denominated in dollars. The proportion of official reserves held in dollars rose from about half in 1990 to two-thirds in 1999.

Yet the euro is (or at least has the potential to be) the first fully fledged rival to the dollar in more than half a century. Some economists thought that a single currency for the entire euro area would ensure its appeal to financial markets outside Europe, so that it would have a greater impact than the currencies it replaced. As Europe's capital markets became more integrated, more liquid and easier to use, the euro securities market would grow, pushing down transactions costs. This was an idea that appealed especially to some European politicians who saw the chance, finally, to end what they saw as the dollar's hegemony. Yet it has not quite worked like that.

Jeffry Frieden, a professor at Harvard University, argues that four factors are important in determining a currency's international role: stability, which reduces the risk of holding assets in that currency; a strong exchange rate, to avoid capital losses for investors; deep and liquid financial markets, which enable holders to diversify or liquidate their holdings; and strong regulatory backing to minimise the possibility of crises.

It does not take much analysis to see that the euro has so far failed to meet the first two of Mr Frieden's criteria. Since January 1999, the euro has fallen from about $1.20 to around 87 cents today; at times, it has been even lower. Not a performance to attract would-be investors.

Yet a surprisingly large proportion of international bond and note issues is now denominated in euros. According to the Bank for International Settlements, more than a third of such issues were in euros in 2000; the new currency gained further ground in the first quarter of this year, accounting for about 47% of such debt issues. (It will, of course, take longer for the stock of euro-denominated debt to rise to such significant shares of the total). The euro appears thus to meet Mr Frieden's third and fourth criteria, and this has helped to win it a substantial place in international financial markets.

Unreserved approval?

The story is rather different for official reserves. A working paper* put out by the International Monetary Fund, published last year, concluded that, over time, the relationship between the demand for reserves in a particular currency and the principal factors influencing that demand—trade flows, financial flows and currency regimes—is strikingly stable. The size of the euro area and its newly created financial market, and the fact that trade flows account for a larger share of GDP in the euro area than in the United States,

would thus point to a growing role for the euro in official reserves.

Yet IMF figures show that, even in 1999, dollar reserves actually rose as a share of the total. There is no sign yet of a large shift into euros. The IMF paper notes that the habits of central bankers are slow to change, and it also argues that, despite the expectations of some economists, there is no reason to expect radical, as opposed to gradual, shifts in the currency composition of reserves. As the paper says, a reputation for price stability is something that it takes time to acquire; the European Central Bank (ECB) needs to develop a track record before central banks overcome their reluctance to shift into euros on a large scale.

This does not explain the euro's weakness, however. The ECB is often blamed for not worrying about the euro's external value, and for sending out conflicting signals about its own intentions. The bank has managed to confuse and alienate many observers. But this is because it is bad at explaining what it is doing, not because what it is doing is wrong. The critics often forget that its main obligation is to deliver price stability.

Part of the explanation for the euro's weakness could be the growth gap between America and Europe. Euro-area growth is likely to outpace America's this year, but in the medium term, American performance may still beat Europe's. Only this week, for example, Paul O'Neill, the American treasury secretary, declared in London that the dollar's strength reflected the greater potential for productivity growth in America.

Of course, as British policymakers who struggled with the problem of the sterling balances in the 1970s could testify, an international currency is a mixed blessing. The bigger the euro's global role, the greater the potential for its volatility, and the more complex will be the implications for domestic policymaking. The ECB's job could then be even tougher.

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* “The currency composition of foreign exchange reserves: retrospect and prospect”, by Barry Eichengreen and Donald J. Mathieson.

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Space wars

Something to watch over you

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America's defence establishment is thinking about "weaponising" space. Some people doubt that this a good idea

WARFARE in space was, for many years, science fiction. No longer. Even as hawks and doves argue about the ballistic-missile defence system (BMD, or "son of Star Wars") that President Bush is proposing, the Space Warfare Centre of America's air force has been simulating war games in space. The details are classified, but an exercise (set putatively in 2017, and pitting America against an unnamed red country) was carried out in January at Schriever air force base in Colorado.

This drove home the point that the senior ranks of America's forces take the prospect of space conflict within a decade or two quite seriously. America's defence is already critically dependent on space technology in the form of satellites. The country has about 150 defence-related machines in orbit at any given moment. These provide reconnaissance information, communications facilities and also the global-positioning system that allows a squaddie to locate himself on the earth's surface to within a few metres. What is more, if a ballistic-missile defence system is ever built, satellites will provide the "eye in the sky" that tells it when to go into action.

At the moment, these satellites are protected by America's huge technological lead; no other country is capable of attacking them successfully. But this advantage, say the hawks, will not last for long. By 2010, potential foes may have developed anti-satellite weapons; America should therefore pre-empt matters by making such weapons itself. It is this, plus the possibility—alluring or repulsive, depending on your point of view—of putting offensive weapons into orbit, that has got the country's military planners reaching for their computer-simulations.

By 2010, America's foes may have developed anti-satellite weapons

Phasers on "kill"

Space weapons will probably come in two varieties: directed-energy weapons (powerful lasers and the like) and kinetic-energy weapons (missiles that destroy things not by carrying an explosive charge, but by hitting them at high speed).

At the moment it is a lot easier to do things on *terra firma* than it is in space, so the systems that are closest to viability are anti-satellite weapons (ASATs) based on earth. The Mid-Infrared Advanced

Chemical Laser (MIRACL), run by the army in White Sands, New Mexico, is America's most powerful laser. It works by mixing reactive gases together and focusing the light that results to produce a beam powerful enough to destroy a satellite passing overhead. The army test-fired the MIRACL against an American satellite in October 1997. It is rumoured to have done more tests with it as well, but the results are still classified.

The MIRACL's bulk will keep it firmly on the ground. The more prosaically named “space-based laser” (SBL) is, as its name suggests, intended to fly. It is being designed by a consortium of aerospace companies including TRW, Lockheed Martin and Boeing, and financed by the air force and the Ballistic Missile Defence Organisation, the agency that will undertake most of Mr Bush's BMD plans. The first test is planned for 2012.

The SBL will be less powerful than the MIRACL—a necessary trade-off to reduce its consumption of gases, which will be hard to renew in orbit. On the other hand, it will not need the same penetrating power. If aimed at other satellites, its beam would not be absorbed by the atmosphere. Even if it were used to attack ballistic missiles, as the initial plan envisages, it would need to penetrate only the upper atmosphere, where the air is thin.

Kinetic-energy ASATs have developed in fits and starts. Their power depends on the fact that an object's kinetic energy rises as the square of its velocity. By the time the object is travelling at, say, 30,000 kph, it has so much kinetic energy that a warhead is superfluous. Although the air force successfully tested an anti-satellite kinetic-energy weapon (a modified air-to-ground missile launched from an F-15 fighter) in the mid-1980s, the programme was cancelled in 1988. A more recent incarnation of the idea is the army's KE-ASAT programme, started in 1990, cancelled towards the end of the second Clinton administration, but recently reinstated in Mr Bush's new budget.

An object travelling at , say, 30,000 kph has so much kinetic energy that a warhead is superfluous

Launching such weapons from aircraft has an advantage over both space-based and ground-based systems. An aircraft can fly to the appropriate spot to intercept a given satellite, rather than waiting for it to pass close to the launcher.

Space-to-earth weapons are even further off—and also more controversial. Such weapons would give America the ability to strike anywhere at the touch of a button. Though sending laser beams through the atmosphere is difficult, kinetic-energy weapons could penetrate hardened bunkers more effectively even than nuclear weapons. Controlling them would be hard, however. A projectile travelling at the necessary speed through the atmosphere would generate so much frictional heat that the air around it would ionise, making radio communication impossible. Such a projectile would be blind, deaf and mute, and would thus have to be aimed extremely accurately in the first place in order to hit its target.

Star Wars and space cadets

Space weapons, therefore, look technologically feasible. But are they desirable? The “space hawks”, who think they are, are led by Bob Smith, a senator from New Hampshire. He has mooted the creation of an autonomous “Space Force” within the American armed forces. Largely at his instigation, a “Commission to Assess United States National Security Space Management and Organisation” was formed in 2000 and was headed, until he was nominated for the position of defence secretary, by Donald Rumsfeld.

The Rumsfeld commission released its report in January, and the Defence Department has started to implement some of its recommendations. To overcome inter-service rivalry, the air force has been made the “executive agent” for space—a move that may pre-empt Mr Smith's idea of a dedicated space force.

That may make bureaucratic sense, but it risks creating a lobbying group for more, and more expensive, kit than is needed. For the truth is that none of the weapons in development deals with the question of how to protect satellites that are already up there, which is the really pressing problem. On the other hand they all risk setting off new arms races as other powers struggle not to be left behind.

The best way to protect the satellite fleet is probably the good old-fashioned engineering idea of redundancy. Put up so many that an enemy could not reasonably expect to destroy enough to leave America defenceless. Beyond that, the better way to handle space warfare may be political, rather than technological. Indeed, a vocal minority within America's forces, frequently

The better way to handle space warfare may be political, rather

affiliated with the Air University at Maxwell air force base in Alabama, argues for the notion of “space sanctuary”. The idea is that, although space is already, to a certain extent, militarised, it should be maintained as a place that is free of actual offensive weapons.

than technological

Such views may not coincide with Mr Bush's gung-ho attitude towards defence. However, they strike a chord in other countries. America was joined only by Israel and Micronesia in not voting for a UN resolution last November on the “Prevention of an Arms Race in Outer Space”. Ilya Klebanov, the Russian vice-premier, and the Chinese foreign ministry have both called for negotiations on preventing the weaponisation of space to take place within the existing framework of the UN Conference on Disarmament. America has the most to lose in space. It may ignore these demands at its own peril.

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Circadian rhythms

Early birds get it

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Body clocks do not have exact 24-hour cycles. This may not be accidental

A JET-LAGGED traveller sleepily lugging his suitcase to the rental car shuttle may well wonder why his brain seems bent upon tormenting his body. If only he could adjust his body clock to his new time-zone, he could get the good night's sleep he needs. If his journey has taken him westwards, however, he will probably have an easier time adjusting to his new schedule than if he has travelled east. Some research by Hiroaki Daido, of the University of Osaka Prefecture, in Japan, published recently in *Physical Review Letters*, may help to explain why.

Nearly every living thing has some form of built-in biological clock—a useful accessory on a planet that rotates once every 24 hours. But most species' daily clocks are not precisely synchronised with the earth's spin: their rhythms are not daily, but “circadian”, or “about a day”. The human body clock seems to stretch a bit longer than 24 hours. That is why flying in a westerly direction, which extends the day, feels slightly less disorienting than the opposite. Jetsetters from other species might react differently: animals' clocks vary between 23 and 26 hours, while plants have cycles that range between 22 and 28 hours.

This variation is surprising, as biological clocks might be expected to track the 24-hour day more closely. Dr Daido suspects the explanation lies in the science of ecology. He has built a model that attempts to explain how differences in circadian rhythms could arise from competition for resources. For, just as species minimise such competition by specialising in the food they eat and the habitats they prefer, so they also specialise in the times of day when they are active.

Dr Daido modelled a group of species that each had a slightly different length programmed into its biological clock. The group's evolution proceeded according to two rules. The first was that some clocks must work better than others, and that the populations of species blessed with better clocks would grow faster. The second was that species with synchronised clocks competed with each other more than species with clocks that were out of phase.

Once the model started running, some species developed clocks that kept time with the environment, while others did not. Depending on how important it was to stay in phase with the natural day, these clocks enjoyed varying degrees of success. When following the natural day was absolutely critical for survival, all the species did indeed stick to 24-hour clocks. But when the time of day mattered a little less, those that rigidly followed the natural day became extinct. This was probably because these species were forced to negotiate a biological rush hour that their tardier cousins avoided.

When the time of day was not critical to survival, species that rigidly followed the natural day became extinct

Imagine a species that prefers to hunt at a certain time of day, say in the early morning when there is light but little heat, and unsuspecting prey are about. All other species that hunt the same food will be active in the early morning, too. By shifting the hours of its hunt, a species may have to work harder for its food—but will not have to share it with as many competitors.

So much for theory. But one result, at least, suggests it can work in practice, too. Last year, biologists at Claude Bernard University in Lyons, France, reported that three species of wasps that lay eggs in the larvae of fruit flies had divided the day between them in just the way that Dr Daido's model predicts.

One species preferred laying its eggs in the morning, one around noon, and the third in the afternoon. Each species had a body clock set to a different length—to days of 21.5, 22.5, and 24.5 hours,

respectively. By adopting a shift-rota of this sort, each wasp could go about its business in peace. So keeping an individually tailored schedule can spur efficiency and productivity more than heeding the ticking of the clock. Remind your boss of that next time you turn up late for work.

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Neurology and human behaviour

Sex, race and brain-scanning

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Some controversial behaviour patterns are coming under the scanner

"THEY all look the same" is the cry of the racially insensitive the world over when they describe whatever group of people they have offended. Liberals beware, however: there is a grain of truth in it. And romantics, too, should beware. The description of sexual attraction as "chemical" may, in part, be literally true.

Both ideas are supported by research published this week that has made use of brain scanning. The study on the ease of recognising faces, depending on their owners' race, was carried out by Jennifer Eberhardt, of Stanford University, using a technique called functional magnetic-resonance imaging (fMRI). That on sexual chemicals was done by Martha McClintock, of the University of Chicago, using positron-emission tomography (PET).

The commonplace observation that people of one race have difficulty recognising individuals from another has been confirmed by psychological research in the past. What Dr Eberhardt did was to make the confirmation physiological by showing, in a paper in *Nature Neuroscience*, which parts of the brain are involved.

She and her colleagues studied the abilities of black and white Americans to recall photographs of black faces, white faces and, as a control, old radio sets (on the grounds that these, while clearly non-human, have features such as knobs and loudspeakers that are reminiscent of the eyes, nose and mouth whose relationships are critical to facial recognition). The fMRI looked especially at part of the brain's cortex known as the fusiform face area. This is known from previous studies to be active when somebody is recognising a face. Its activity was as predicted: most responsive when recognising a face of the same race, less so when the face was of a different race, and least of all when the "face" was that of an old radio.

There is, however, no suggestion that the difference is hard-wired from birth. The more likely explanation is that it is learnt. That would explain why, in America, it is observed more strongly in people of European descent than those of African descent. Blacks, who are the minority, see a higher proportion of white faces as they grow up than whites see black faces.

The idea that people have sex pheromones is also an old one. A pheromone is an "external" hormone—in other words a substance released by one individual that affects the physiology of another. Frequently, the eventual effect is a change in behaviour. Many female moths attract mates by emitting a stream of appropriate chemicals. Many humans, female and male, would like to be able to do the same thing—as the perfume industry attests.

Recently, Dr McClintock and her team showed that androstadienone, a steroid released in male sweat, can affect a woman's mood by maintaining both alertness and a positive attitude when she performs a tedious task. Now, in a paper in *NeuroReport*, they have shown which parts of the brain respond to androstadienone by measuring the consumption of glucose (the body's universal fuel) using PET.

One of the curious things about androstadienone is that, despite its effects, it is essentially odourless. But, just to make sure, the researchers mixed it with clove oil. A control group was given unadulterated clove oil to smell. Yet the brain's olfactory centres consumed more glucose (and were thus more active) when the steroid was present in the clove oil than when it was absent. Parts of the limbic system, too, were more active; and the limbic system is where most emotions are generated. A third zone of activity was the visual cortex. That probably explains the extra alertness. The researchers forbear to ask whether being chatted up by a man is so boring that a woman needs the effects of pheromones to stay awake.

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About sponsorship

The Delphic oracle

A whiff of the future

Jul 26th 2001
From The Economist print edition

The prophetess at Delphi was probably as high as a kite

Bridgeman

PROPHECY is best carried out in a trance. That trance is, of course, induced by whichever deity then reveals the visions—but a little chemical help is always welcome. Even ancient writers knew that. Plutarch, a historian who was also high priest at the temple of Apollo, in Delphi, describes the sweet-smelling vapours that the priestess who spoke the oracles inhaled in her cubby-hole under the temple.

Modern historians are more sceptical. Archaeological excavations in the 19th century failed to find the “chasm” from which these vapours are supposed to have risen. But vapours there were, as Jelle de Boer of Wesleyan University in Middletown, Connecticut, and his colleagues reveal in the current issue of *Geology*.

The team chipped bits of travertine (a form of limestone deposited over the millennia by spring water) from the walls of the adyton, as the cubby-hole is known. The travertine turned out to contain methane and ethane, two gases that probably derive from the bituminous limestone that lies beneath the site. That showed that the adyton was filled with such gases in the past. And, though the researchers did not find it in the travertine, their analysis of emissions from local springs found a related gas called ethylene.

This substance smells sweet. Moreover, breathing it often induces a state of euphoria. Sometimes, however, people have a more violent reaction. They become delirious and thrash around—a state that Plutarch also recorded. The priestess, it seems, was as much glue-sniffer as guru.

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Modern seafaring

Salty conquerors

Jul 26th 2001

The hubris of racers today

THIS was not, said Larry Ellison, meant to happen at sea. “Difficult, yes. Dangerous, no. Life-threatening, definitely not.” Mr Ellison, founder of Oracle, had just won the 630-nautical-mile (1,167-km) Sydney to Hobart race on *Sayonara*, a giant yacht to match his giant ego. Both emerged battered from the ordeal. An unusually violent storm, with gusts of over 75 knots, had hit the 115-boat fleet that set out on December 26th 1998. Seventy-two boats never finished. Five of them sank. Some 55 yachtsmen were rescued; six drowned.

Mr Ellison was wrong: bad things happen at sea. The Sydney-Hobart is a notably rough race. Nor can you entirely blame the weathermen who failed to see the storm coming. In the days before bespoke meteorologists and satellite communications, you had to be ready, and responsible enough, for anything. That meant, first, having a well-found vessel. The trouble is, *Sayonara* and her kind are wind-driven surfboards: unstable, flimsy, with accelerations that cause gear to fail and that incapacitate crewmen. In the Bass Strait, *Sayonara*'s kevlar hull was breaking up.

Not just wrong, but unpleasant, at least at sea. The worse conditions get, the more owners and skippers must see to the crew's morale. According to Bruce Knecht, Mr Ellison spent the race saying or thinking things like: “This is a complete fucking nightmare.” To one injured crew member, his foot held to his leg by just skin and tendons, he insists: “Just remember, it was your idea to come on the race.” An hour after stepping ashore, Mr Ellison is in his private plane, off to Antigua.

Oddly, Mr Knecht does not seem to take against the tycoon. The other characters in his telling of the race are more sympathetic, several certainly brave. Still, mechanical portraits and flat-toned reporting don't do much for decent blokes like Beaver, Gibbo, Dags and Steamer. And in this book an opportunity is missed to examine broader notions: the changing bonds between man and sea, and the hubris of high-tech boats and aggressive, professional crews out to conquer. Fancy electronics are worthless when saltwater soaks them. And the sea, as Rudyard Kipling said, does not cease to be the sea.

AP

For sailors three decades earlier, the sea was still a Conradian one. No global positioning systems, but sextant, sun and stars. The nine single-handed yachtsmen who set off at different times in 1968, bidding to be the first to sail non-stop around the world, shared knowledge and friendship. Although he draws too much on his earlier writings, Peter Nichols in a fine new book suggests that the rot of sponsorship set in here: a trophy of a golden globe and a cash prize offered by the *Sunday Times* for, respectively, the first and the fastest circumnavigation. It helped turn a bunch of personal quests into a formal race, encouraging some sailors who were ill-advised and some unprepared.

A music company sponsored one British naval officer, Nigel Tetley, and he didn't complain. He dined on oysters, roast pheasant and asparagus, listening to Kodaly and Saint-Saens. Yet his Christmas dinner photograph speaks of the loneliness of an Earls Court bedsit, Mr Nichols writes. Mr Tetley nursed his unsuitable trimaran almost all the way home, until she sank in the Atlantic.

The Proving Ground
By G. Bruce Knecht

Little, Brown; 320 pages; $24.95. FourthEstate; £15.99

Buy it at
Amazon.com
Amazon.co.uk

A Voyage for Madmen
By Peter Nichols

HarperCollins; 320 pages; $26. Profile Books; £16.99.

Buy it at
Amazon.com
Amazon.co.uk

Bernard Moitessier, a Frenchman raised in Vietnam, was a mystic and consummate seaman. He ran down the great wastes of the roaring forties, reaching a state of grace in a world, he felt, with no past or future. He rounded Cape Horn almost certain to win if he headed north back to Europe. Instead, he rebelled against the competitiveness of it all. He quit the race, abandoning his waiting wife, and carried on to the Cape of Good Hope for a second time. His one-and-a-half revolutions of the stormy southern ocean, before at last dropping anchor in Tahiti, is one of the great feats of singlehanded sailing. “Please do not think I am trying to break a record,” ran the message thrown by sling-shot on to a passing oil tanker. “‘Record' is a very stupid word at sea. I am continuing non-stop because I am happy at sea, and perhaps because I want to save my soul.”

It was left to a bully-beef and tinned-sausages man, Robin Knox-Johnston, in his plodding but solid *Suhaili*, now in the National Maritime Museum at Greenwich, to become the first non-stop circumnavigator: “by rights”, he had said, the honour must fall to a Briton. Before the race, a psychiatrist had declared him “distressingly normal”. His ten-month voyage, a mix of grit and cheer, gives the lie to that, though he proved to be a prince among men.

Donald Crowhurst was not really normal, and grew ever less so. He had piled his hastily-built trimaran high with useless gadgetry, even an unfinished “computer”, to get the best out of the boat. Still, he forgot essentials, such as boat-repair kits, on the quay. He started late, and lost his nerve as the boat's structural problems came to light. For weeks, he drifted around off the coast of Brazil, pretending over the radio he had entered the southern ocean. The deception was a strain. His boat was found floating, empty, with his log-book open charting the depths of his despair. Times really have changed. Today Mr Ellison's boating rivals drop their pants and moon the Oracle tycoon when they pass him at sea; Mr Knox-Johnston, who was knighted Sir Robin after the race, gave away his prize money to Crowhurst's widow.

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Europe

State of the Union

Jul 26th 2001

The Nice Treaty Explained.
By Jens-Peter Bonde.
Vindrose; 95 pages; DKr120. Also available for free from www.euobserver.com

The Treaty of Nice and Beyond
By David Galloway

Sheffield Academic Press; 232 pages; $19.95 and £14.95

Buy it at
Amazon.co.uk

LIKE many things to do with the European Union, the Treaty of Nice—negotiated by the EU's 15 leaders last December—is more discussed than understood. Ireland's voters are widely thought to have dealt a blow to the EU when they voted against ratifying Nice in a referendum in June. But opinion polls taken shortly before the referendum revealed that just 16% of voters claimed to have a good understanding of the issues involved.

It's hard to blame them. For all the political agonising that Nice has caused, the issues seem dessicated and technical. How many votes should each member get in the EU's Council of Ministers? Which policy issues should be decided by unanimity and which by majority vote? How will the EU manage “enhanced co-operation”, in which groups of countries forge common policies, while others opt out? Why should anyone get worked up about all that?

Two new books written from very different perspectives attempt to give an explanation. David Galloway is an insider, working for the EU's Council of Ministers, which prepared the negotiations. Jens-Peter Bonde is a Danish MEP and veteran Eurosceptic, who played a leading role in persuading his countrymen to reject membership of the single European currency. Mr Galloway's is the more scholarly and thorough work; Mr Bonde's effort is essentially a quick-fire pamphlet. Nonetheless, they make an interesting pair. They show how two intelligent people looking at the same document can reach radically different conclusions.

Mr Bonde sees the EU as a state in embryo, advancing its goals in a fashion that is often stealthy and dishonest. He rejects the notion that the institutional reforms agreed at Nice were primarily about preparing the EU to admit as many as 12 new members, most from Central Europe. In his view the preparation for “enlargement” was a cover story for the EU's integrationists to pursue their real goals: eroding the rights and powers of nation states and advancing the supra-national cause. He argues that “enlargement is no nearer after the treaty of Nice”, but that, by abolishing the national right of veto across a range of new policy areas, the treaty has brought about deeper integration—a quiet victory for the federalists. Romano Prodi, the head of the European Commission (who, slightly oddly, has written a preface to Mr Bonde's pamphlet), inadvertently gave this line of argument a boost when he recently admitted that, technically speaking, ratification of Nice is not necessary for the EU to enlarge.

Mr Galloway is less conspiratorial than Mr Bonde and believes that the Nice treaty was indeed above all about preparing for enlargement, and that it should be praised for achieving this limited aim. He sees the end text as a series of complex bargains and balancing acts, between the EU as an institution and the member states that compose it, between the states themselves and between the institutions of the EU itself—the parliament, the Council of Ministers and the commission.

While both federalists and Eurosceptics have been increasingly outspoken in their criticism of the Nice treaty, Mr Galloway's intimate knowledge of the arguments and necessary compromises leads him to a view characteristic of institutional insiders: that things more or less had to turn out in the way they did. “EU treaties”, he says, “are neither ‘good' nor ‘bad'. They constitute the response to the political

questions being asked of them at any given time."

Yet there is one point on which both analysts are agreed. Nice is complex and difficult to understand; in future, the EU must do better in explaining its workings to a European public that seems to be simultaneously bored and irritated by the Union. That conclusion, reached by both men before Ireland's Nice vote, seems even more relevant now.

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Pablo Escobar

Colombia counts the cost of war

Jul 26th 2001
From The Economist print edition

Get article background

PABLO ESCOBAR was a car thief and small-time hoodlum in Medellin, Colombia's second city, when he discovered America's appetite for cocaine. He quickly became a billionaire. What distinguished him from other drug traffickers was his icy ruthlessness and his vaulting ambition, which led him to seek political office. The result was a war lasting almost a decade between Escobar and his army of hired killers from the Medellin slums on the one hand, and the Colombian state and the American government on the other.

Killing Pablo: The Hunt for the World's Greatest Outlaw
By Mark Bowden

Atlantic Monthly Press; 400 pages; $25.
Atlantic Books; £16.99

Buy it at
Amazon.com
Amazon.co.uk

Escobar's strategy of *plomo o plata* (lead or silver) was devastatingly effective: ordinary citizens, politicians, journalists, judges and police alike were slaughtered; many others preferred to be corrupted. The government agreed to a deal under which the drug baron entered a luxurious prison which he controlled. When Escobar walked out of the jail, an embarrassed government launched a desperate manhunt that lasted 16 months. It ended on December 2nd 1993, when Escobar was cornered and finally killed.

Mark Bowden, an American investigative journalist, turns the hunt for Escobar into a thriller, long on reconstructed dialogue, cliché and hyperbole. He lacks any deep knowledge or understanding of Colombia; his background chapters are derivative and strewn with elementary errors. But his researching of American sources is impressive.

Mr Bowden shows how in the hunt for Escobar, Colombian and American law enforcers adopted their quarry's methods and were none too choosy about their allies. These included not just the Cali drug mob, but Carlos Castaño—now notorious as the leader of an 8,000-strong army of right-wing, drug-trafficking vigilantes. Packaged as an airport bestseller, “Killing Pablo” recounts an important chapter in the story of how America's demand for drugs and its failed crusade against them have helped to plunge Colombia into chaos.

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Photography

Sebastiao Salgado's Indonesia

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A Brazilian photographer and former economist who specialises in photos of migrant workers, refugees and children, Sebastiao Salgado took his camera to more than 40 cities, including the Indonesian capital, Jakarta, to highlight the huge gulf between the rich and poor who so often live cheek-by-jowl in the third world. His latest book, “The Children”, is published by Aperture. “Exodes”, or “Migrations”, as his travelling exhibition is called in English, is at Le Botanique in Brussels until July 29th, and in Edinburgh, Modena and New York until September.

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Literary criticism

Renaissance man

Jul 26th 2001

Pleasing Myself: Essays from Beowulf to Philip Roth
By Frank Kermode

Allen Lane, The Penguin Press; 288 pages; £20

Buy it at Amazon.co.uk

THE late William Empson, an original poet and one of the great critics in our language, thought Christianity a wicked religion. As a result, he was always on the look-out for Christian apologists masquerading as critics. In one of two fine essays in praise of the master, Sir Frank Kermode—the doyen of contemporary literary critics—recalls an occasion when Empson branded him “a palpable neo-Christian”, when all that Sir Frank was doing (as a student of Renaissance poetry) was taking the beliefs of his authors seriously.

Empson's accusation is a reminder of how obtuse great minds can sometimes be, especially when their passions are engaged: which perhaps explains Sir Frank's quite different manner—moderate, sceptical and generous. These qualities are once again on show in “Pleasing Myself”, Sir Frank's 17th book, which includes the pieces on Empson. It is a collection of essay-reviews from the past decade, none of them shorter than 2,500 words or longer than 5,000. They deal with a surprising range of topics. Some are well within Sir Frank's established fields of Renaissance and modern literature: there are pieces on revisions in Shakespeare, on the life of Yeats, on new books by Philip Roth and Roy Fuller. There are also essays that fall outside that range—a judicious account, for instance, of new translations of “Beowulf”. But on several topics he writes as an amateur: on Howard Hodgkin's paintings, on A.J. Ayer's philosophy, on money, the sea and death. These non-specialist items are of peculiar value and interest, for they reveal the depth and scope of an enquiring and well-stocked mind that is happy to share its processes of thought with the thoughtful reader. It is as if we are being granted insight into the mental habits that stocked that mind so well in the first place.

At 81, and still active as a critic, Sir Frank is one of the best-read authors alive. He is also an unobtrusively elegant stylist and often laments the “barbarous jargon” of much modern literary theory. This is far from being an old man's nostalgia. A good deal of theory is indebted to his work. It is simply that he sees no reason for wilful inaccessibility, displays of pseudo-scholarly ingenuity and what seems to amount to a strange dislike of literature.

These worries emerge as essay builds on essay and the emphasis on enjoyment makes itself felt: hence the title. The cumulative effect is more personal, oddly enough, than it would be in a structured critical monograph. It is more like reading a collection of poems or stories, the deep preoccupations becoming clear as you proceed. It is here that you begin to see what Empson was getting at. What he should have noticed is that agnosticism is fundamental to all that Sir Frank writes but that, like many agnostics, he continues to brood on the problems belief has raised. As he writes in one of the essays on philosophy: “Non-philosophers often have trouble making out why philosophers remain fascinated by questions they themselves gave up as hopeless at the age of six or seven: why what is, is; what one can know of other minds than one's own; what it is for words to mean what they do...”

The literary critic, moreover, must consider germane questions that concern the relation of written words to experience. When there are competing texts of a work, how is one judged truer than the others? To what extent is the author's intention the real point? Can we separate texts from interpretations that have traditionally been made of them and, if so, should we want to? It was these questions that, some years ago now, led Sir Frank to the study of the Bible as narrative and to the ancient rabbinical disciplines that, even today, determine how it is read. Several books later, he continues to suggest—in the central essay of this volume—that the interpretation of any body of writing will follow most of these venerable procedures.

It was this set of preoccupations that led, all those years ago, to Empson's charge of “neo-Christianity”. But Empson seems not to have understood that the sceptic, too, may respect the believer. In William Golding's last novel, “The Double Tongue”, published posthumously in 1995, there is a priest named

Ionides, who presides over Apollo's shrine at Delphi. It is his job to train the new priestess, the Pythia, who in her trances will give voice to the oracles. “Ionides, whom in so many ways we resemble”, writes Sir Frank, “did not believe in the holy, did not believe that Pythia was inspired, but honoured her all the same.” A neo-Apollonian, perhaps, in the words of a neo-Christian.

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Caine prize for African writing

Prison diary

Jul 26th 2001

Helon Habila's “Love Poems”

A NIGERIAN writer, 33-year-old Helon Habila, has won the $15,000 Caine prize for his prison-diary story, “Love Poems” (Epik Books, Lagos).

Mr Habila is the arts editor of *Vanguard*, a Lagos newspaper, as well as a published poet. A Christian from the mainly-Muslim north of Nigeria and an outspoken newspaper columnist, he firmly believes that Muslims and Christians can peacefully co-exist in Nigeria and has not been afraid of taking the authorities to task for inciting religious clashes in the north.

“Love Poems” is set in 1997, towards the end of the Abacha regime, when the country was plagued by increasing violence and political detentions. Mr Habila writes of the loneliness, the fear and the smell of life in prison. The judges said his story was marked by a particular “intensity and alertness to some of the most sinister aspects of Nigerian life under military rule.”

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Modern composers

Fighting shy

Jul 26th 2001

We caught up recently with Gyorgy Ligeti, a modern master, in Berlin

THE composer has just heard that he has won a coveted award worth $350,000 and is celebrating, in his own distinctive way, with colleagues at the Wissenschaftskolleg, a sabbatical haven for artists and scholars in the leafy western suburbs of Berlin. Other modern composers, mindful of the precariousness of their work, might give in to a moment or two of untrammelled joy. But Gyorgy Ligeti sounds glum. Money and commerce, he believes, are ruining art, and he thinks that a little-heard Russian composer whom he particularly admires, Galina Ustvolskaya, deserved the prize more. Propounding what he calls Ligeti's law, he says, “Artists who become famous are no good because they have no time to be good.”

As notes towards an acceptance speech, this sounds less than grateful. But Mr Ligeti is speaking with characteristic irony. When you hear him talk, as when you listen to his music, you soon learn to recognise micro-shades of mood and meaning. Behind the grumpiest of his remarks, there is the trace of a smile, though hardly an innocent one.

For a composer of mainly “abstract” music—work that doesn't tell a story but is listened to for itself—his life has been cut through with history. He was born 78 years ago to a Hungarian family in the large swathe of Transylvania awarded to Romania after 1918. He wanted to be a scientist, but the Jewish quota in university science places was full. Against the wishes of his parents, who kept him from the piano until he was 14, he took up music, first at Cluj and then in Budapest, which he reached on foot. In the second world war, his father and a brother vanished in Nazi camps. He himself lived under communism in Budapest until the failed uprising of 1956, when he fled to Austria.

Unlike other prominent composers of his generation—Pierre Boulez and Karlheinz Stockhausen come to mind—recognition for Mr Ligeti came late. (Stanley Kubrick, who was always ahead of the crowd, used his music in the 1968 film, “2001: A Space Odyssey”.) On leaving Hungary, he worked with Mr Stockhausen on electronic music, but soon abandoned it, preferring to plunder the world's stock of existing instruments—ocarinas and gamelan fiddles, for example, as well as piccolos and violins—to find strange and beautiful new sounds. He is equally piratical with the world's musical styles.

In the early 1960s, he composed a symphonic poem for 100 metronomes (it sounds like blind men applauding with their canes) which run down for 19 minutes until only one is left. Nowadays, he laughes this off as a provocative joke. But humour of a subtler kind and a taste for surprise have never left him.

When you first hear Mr Ligeti's music, it can sound frozen or static, as if not going anywhere. But, unlike many minimalist compositions—a label wrongly applied to his work—it is not repetitious. It changes slowly, with surprising results, as do certain mathematical expansions. He loves dynamic extremes (a passage in his 1966 cello concerto is marked *pppppppp*),and unusual rhythms and tempos.

The least doctrinaire of composers, Mr Ligeti has said he has no message and is always ready to change his musical language. He has tried serialism, tone clusters and conventional chords (unconventionally arranged). He has tuned violins in odd ways and explored tiny intervals of sound. When a Ligeti festival was held on London's South Bank in 1997, it was called, suitably, “Clocks and Clouds”. For a less gifted mind, such an unbounded menu of sound could so easily produce chaos. But Mr Ligeti has a natural fluency and a lyric gift that makes it difficult for him to write a boring passage or an ugly bar.

His musical judgments about others are fierce and unexpected, and he delivers them with mischievous certitude: Conlon Nancarrow is the most original of composers since Stravinsky and Bartok; Carlo Gesualdo, a 16th-century Neapolitan count, is one of the greatest composers ever; Reinbert de Leeuw is among the very best of contemporary conductors. Mr Ligeti, you suspect, knows perfectly well that many of us will be gasping, Who?

By contrast, there is nothing playful or ironic when Mr Ligeti talks about performances of his own music. When Sony began to issue CDs of all his work, he approved of the “Etudes” and “Musica ricercata”, played by Pierre-Laurent Aimard, his favourite among players of his piano work (SK 62308), and he liked also the chamber music disc (SK 62309). But he was scathing about the recordings of his orchestral work and he has fought Sony in court, successfully so far, to prevent their release. His preferred conductor, Mr de Leeuw, appears on the first of a new Ligeti project for Teldec (8573-83953-2). This includes the lovely “Melodien” (1971), as good an introduction to his music as you could want and one which Mr Ligeti himself prefers to the more-often-played “Lontano”. (The Teldec label is now owned by AOL Time Warner and, to Mr Ligeti's regret, disbanded in all but name.)

Frugal and disciplined in manner, Mr Ligeti lives for his music. His clothes look as if they were bought at jumble sales. His trademark Missoni jerseys, with their repeating patterns, are gifts from well-wishers. He has spent most of his days in Berlin in his bare room with only a few books. There is not even a computer. Pushing down a key and having a note appear on the screen, he finds, is too quick and too mechanical. All he needs is a pencil and eraser, with a piano nearby.

At lunches in the Wissenschaftskolleg, Mr Ligeti has been a star, engaging voraciously in conversation with all comers on almost any subject in one of six and a half languages (Romanian, Hungarian, German, French, English, Swedish, with a musician's Italian counting as half). Mostly, he prefers to talk about science. He is a friend of Benoît Mandelbrot, a founder of fractal geometry—the study of figures generated by successive simple operations such as division—whom Mr Ligeti sought out after concluding that he had been using fractal patterns in his music for years.

A mathematician manqué, Mr Ligeti likes to say, “I am not a musician, I am a scientist.” This is not simply a *boutade*, for he takes an unfashionably objective view of his work, one in which communication seems to play little part. At a lunchtime set-to recently about who it is that artists create for, one person mentioned that their poet-husband wrote for 30 people who could understand his work. Someone else cited an artist who worked strictly for herself. Mr Ligeti cut in, “I create neither for an audience nor for myself. I create for solutions.” Luckily more and more of us can hear how right his solutions sound.

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About sponsorship

What the world is reading: Latin American bestsellers

Fantasy, politics and fantastic politics

Jul 26th 2001

Harry Potter, meet Simon Bolivar

THE continent that gave us magic realism has embraced magic of a less realistic kind, in the ubiquitous form of Harry Potter: at least a couple of titles appear in each of the lists below. Paulo Coelho, a Brazilian novelist, possesses a similarly broad appeal. But there is plenty of local talent too. In Colombia, Fernando Vallejo's uncompromising and formally experimental novel “El Desbarrancadero” is doing well in third place, despite its disturbing subject-matter.

Venezuelan readers are enjoying a posthumous treat from Francisco Herrera Luque, whose “El vuelo del alcatraz” dramatises the life of Simon Bolivar. The Chilean list contains three books exploring different aspects of life under Pinochet: Maria Olivia Mönckeberg's report on privatisation, “El saqueo”, and two novels, Carlos Droguett's “Matar a los viejos” and Pedro Lemebel's “Tengo miede torero”.

In Paraguay, too, readers are looking to fiction for social and political comment: Federico Andahazi's “El Principe” and Marcos Aguinis's “Los Iluminados” employ, respectively, fantasy and a quasi-documentary approach to make sense of it all.

Bestsellers

	COLOMBIA	VENEZUELA
1	**Harry Potter y el caliz de fuego** *by J.K. Rowling* Harry in wizard tournament	**Harry Potter y la piedra filosofal** *by J.K. Rowling* Harry starts wizard school
2	**El Demonio y la señorita Prym** *by Paulo Coelho* Fable of good and evil	**¿Quien se ha llevado mi queso?** *by Spencer Johnson* Million-selling self-help bible
3	**El Desbarrancadero** *by Fernando Vallejo* Semi-autobiographical meditation on death	**El vuelo del alcatraz** *by Francisco Herrera Luque* Dramatic retelling of Simon Bolivar's life
4	**La Caverna** *by Jose Saramago* Plato, pottery and the pressures of modern life	**Mujeres que corren con los lobos** *by Clarissa Pinkola Estes* Discovering the wild woman within
5	**El Corazon del Tartaro** *by Rosa Montero* Bookish thriller	**Harry Potter y la camara secreta** *by J.K. Rowling* More wizardry and more Harry
6	**Mientras vivimos** *by Maruja Torres* Historical thriller	**Los 7 habitos de la gente altamente efectiva** *by Stephen Covey* Efficiency tips
7	**Palabras pendientes** *by Alfonso Lopez Michelsen* Ex-president reflects on Colombia past and present	**Momo** *by Michael Ende* Children's fantasy story
8	**Tras las claves de Melquiades** *by Eligio Garcia Marquez* Guide to "100 Years of Solitude"	**El señor de los anillos** *by J.R.R. Tolkien* Fantasy classic
9	**Los discursos del poder** *by Liliana Viola* Great speeches	**Harry Potter y el caliz de fuego** *by J.K. Rowling* Harry in wizard tournament
10	**Sigamos creciendo con nuestros hijos** *by Angela Marulanda* Maintaining good family relationships	**El Demonio y la señorita Prym** *by Paulo Coelho* Fable of good and evil

	CHILE	PARAGUAY
1	**Harry Potter y el caliz de fuego** *by J.K. Rowling* Harry in wizard tournament	**Harry Potter y el caliz de fuego** *by J.K. Rowling* Harry in wizard tournament
2	**El saqueo** *Maria Olivia Mönckeberg* Privatisation under Pinochet examined	**Harry Potter y la piedra filosofal** *by J.K. Rowling* Harry starts wizard school
3	**Tengo miedo torero** *by Pedro Lemebel* Homosexuality and Chilean politics	**Los hombres son de Marte, las mujeres son de Venus** *by John Gray* Understanding the opposite sex
4	**¿Quien se ha llevado mi queso?** *by Spencer Johnson* Million-selling self-help bible	**El Caballero de la Armadura Oxidada** *by Robert Fisher* Medieval romance
5	**El Corazon del Tartaro** *by Rosa Montero* Bookish thriller	**El Principe** *by Federico Andahazi* Fantastic allegory of modern Latin America
6	**El poder del espiritu** *by Rosemary Altea* How to communicate with spirits	**Presentimientos** *by Sidney Sheldon* Plucky journalist becomes embroiled in intrigue
7	**Matar a los viejos** *by Carlos Droguett* Controversial novel on Chilean junta	**La ultima confesion** *by Morris West* Inquisition drama
8	**El Demonio y la senorita Prym** *by Paulo Coelho* Fable of good and evil	**Retrato en Sepia** *by Isabel Allende* Family drama
9	**Harry Potter y la piedra filosofal** *by J.K. Rowling* Harry starts wizard school	**Los Iluminados** *by Marcos Aguinis* Evils of modern America and Argentina
10	**Tierra sagrada** *by Barbara Wood* Romance and archaeology	**Manual del guerrero de la luz** *by Paulo Coelho* Collection of newspaper articles

Source: AP

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About sponsorship

Paul Livingstone Tito Omukuba

Jul 26th 2001
From The Economist print edition

Reuters

The almost unknown soldier of the war on AIDS died on July 9th, aged 34

Get article background

DEATH in Africa is a very public affair. Funerals are big social events at which grief is expressed openly and exuberantly. Families take large spaces in newspapers to announce the death of a loved one, complete with a picture, lists of achievements, names of children. These days, about half the faces staring out of the death notices are young. They have died of AIDS. But, in contrast to the public rites of death, this increasingly frequent cause goes whispered or unmentioned. AIDS is a taboo subject in Africa.

That taboo was broken last week by the family of Paul Omukuba. His death notice in the *Daily Nation*, one of Kenya's leading national newspapers, was decorated with two red ribbons to show he died of AIDS. At his funeral, the same ribbons were worn by his relations and friends.

Mr Omukuba was ordinary. He worked as a waiter in the Nairobi Club and then as a store clerk at a coffee farm. He was married with two children, aged one and two. Both they and their mother are HIV-positive. He also had one child, now eight years old, before he married. Jacqueline Naulikha, a Kenya Red Cross nurse who diagnosed Mr Omukuba as infected and later counselled him, described him as a “typical Kenyan man” who lived life a little too fully. He had lots of girlfriends despite being married, and never thought AIDS would happen to him.

It did—horribly. He was diagnosed in 1998 and laid off work. As a result, he was unable to support his family and went home to his elderly mother, who could barely look after him. He contracted tuberculosis, developed a heavy rash and had permanent digestion troubles. A doctor saw him every week, but Mr Omukuba could not afford anything beyond basic medicine. Two weeks before the end he lost all his skin and died in agony. As he was dying, he told his sister, Margaret Muigai, that if he ever recovered he would go around schools in Kenya warning children of the dangers of AIDS.

A message in red ribbons

When Paul died, his sister wanted him to be remembered but did not know how. Then she realised that, according to the tradition of the Luhya, their ethnic group, Mr Omukuba's widow would be given to a new husband by the family elders. Mrs Muigai, determined that at least one life should be saved, told the family elders that Paul had died of AIDS and that his widow was also infected. They agreed she should not be remarried, and this gave Mrs Muigai the confidence to include the red ribbons on his death notice.

“Paul wanted people to learn of his fate. We hope that by telling people that our dear brother died of AIDS, many other people will be saved.”

She could be right. When, for the first time, the *Daily Nation* carried a death notice decorated with red ribbons, dozens of relatives of other AIDS victims called the newspaper and Mrs Muigai to thank them for their courage. They say it has helped to remove the stigma of AIDS. It is easier to talk about now.

About 6,575 Africans are reckoned to die of AIDS every day, 700 of them Kenyans. More than 17m Africans have died of AIDS over the past 20 years. More will follow. In some countries, neither the infection rate nor the death rate has peaked. If so many were dying in a war, there would be frantic efforts to stop it. Nor does the suffering end when the victims die: there are now estimated to be more than 9m children orphaned by AIDS in Africa.

HIV has been able to spread so catastrophically in Africa because almost no one talks about it. Sex and AIDS are a subject for jokes, not for serious discussion or classroom education. Kenya's President Daniel arap Moi declared AIDS a national disaster in 1999, but he regularly reminds women to obey men and has blamed women for the spread of the disease. He cannot bring himself to urge the use of condoms, but instead suggested recently that the way to fight AIDS was for everyone to abstain from sex for two years.

Other rulers have simply ignored the pandemic, too embarrassed to speak about it. Christian and Muslim leaders fulminate against promiscuity and claim that AIDS is a punishment from God to be endured, not cured. All this has produced a climate in which basic sex and health education are ignored, and young people are not told honestly that unprotected sex spreads the HIV infection. Witch-doctors and quacks make a fortune proclaiming bogus cures.

In such conditions, the decision of Mr Omukuba's family to admit that he died of AIDS may have as much effect as many much grander schemes. Kofi Annan, the secretary-general of the United Nations, has launched an appeal to raise between $7 billion and $10 billion a year to fight the disease. But the world is not going to rescue Africa from AIDS. Only Africans can do that, by changing their behaviour.

The war must be won by thousands of small victories in the continent itself, and by individuals speaking out. One symbol of South Africa's fight against AIDS, Nkosi Johnson, who died in June at the age of 12, was happy to stand up in front of thousands and talk about his life with AIDS. Mr Omukuba never did that; but his deathbed wish, carried out by his sister, has made this very ordinary Kenyan another front-line soldier in this dark struggle.

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Overview

Jul 26th 2001
From The Economist print edition

Stockmarkets lost ground everywhere. Investors took fright at the prospects for the global economy, as several big companies announced lower profits and job cuts. Tokyo's Nikkei 225 stockmarket average fell to 11,609 on July 23rd, its lowest since January 1985. In America, the Dow Jones Industrial Average fell by 1.6%,and the Nasdaq fell below the 2,000 mark. Britain's FTSE-100 index fell to its lowest since October 1998.

The **euro** continued its three-week recovery against the dollar, reaching a two-month high. The single currency also rose to a ten-week high against the Japanese yen.

In the **euro area,** the prospects for growth deteriorated again, as **Germany**'s Ifo business-climate index declined by more than expected to a five-year low of 89.5 in June. Business confidence also fell in **Italy**, where the ISAE index fell to its lowest since May 1998. But the outlook for inflation improved. According to preliminary data, inflation in the year to July slowed to 2.7% in Germany, down from 3.1% in June. The **French** consumer also offered a glimmer of hope as household spending rebounded in June.

There were mixed signals from **Britain**. Retail sales grew robustly in the year to June, but the CBI quarterly survey painted a depressing picture of the industrial economy. Confidence remained low, with a negative balance of manufacturers who were more pessimistic than optimistic about business conditions of 22%. They were even gloomier about export prospects, with a negative balance of 25%. This was the worst for almost three years and a sharp deterioration from the positive balance of 7% in January.

There were signs in **America** that the still buoyant housing market could continue to bolster the economy. Although sales of existing homes fell by 0.6% in June, the decline was smaller than expected and the number of sales was the fifth highest on record. The median house price increased by 9% in the year to June, suggesting that rising property wealth may mitigate some of the losses in financial-market wealth.

OPEC agreed to cut **oil** supplies by 1m barrels a day from September 1st, in an attempt to lift prices back up to $25 a barrel. The OPEC basket price fell to $22.64 on July 18th. This will be the third time that OPEC has cut production this year.

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Output, demand and jobs

Jul 26th 2001
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	1 year	1 year	latest	year ago
Australia	+ 4.3	+ 2.1 Q1	+ 2.3	+ 3.8	– 1.4 Q1*	+ 3.0 Q1	6.9 Jun	6.3
Austria	+ 1.6	+ 2.2 Q1	+ 2.0	+ 2.3	+ 2.5 Apr	+ 2.6 Mar	3.7 May	3.7
Belgium	+ 1.8	+ 2.4 Q1	+ 2.3	+ 2.6	– 2.9 May*	– 1.7 Apr	9.9 Jun*	10.1
Britain	+ 1.7	+ 2.7 Q1	+ 2.2	+ 2.8	– 1.9 May	+ 5.6 Jun	4.9 May‡	5.6
Canada	+ 2.5	+ 2.6 Q1†	+ 2.3	+ 3.1	+ 1.0 Apr	+ 4.3 Apr	7.0 Jun	6.6
Denmark	– 4.6	+ 1.0 Q1	+ 1.5	+ 2.1	– 4.0 May	+ 0.2 Apr	5.2 May	5.4
France	+ 2.0	+ 2.7 Q1	+ 2.2	+ 2.5	+ 1.9 May	– 2.5 May	8.7 May	9.6
Germany	+ 1.5	+ 1.6 Q1	+ 1.3	+ 2.1	– 1.6 May	– 2.3 May	9.3 Jun	9.6
Italy	+ 2.8	+ 2.4 Q1	+ 2.0	+ 2.3	– 1.9 May	– 0.8 Apr	9.6 Apr	10.7
Japan	– 0.8	– 0.1 Q1	– 0.3	+ 0.9	– 3.9 May	– 1.0 May	4.9 May	4.6
Netherlands	+ 0.2	+ 2.0 Q1	+ 2.2	+ 2.9	– 2.0 May	+ 1.5 Mar	1.8 Jun§	2.7
Spain	+ 4.1	+ 3.3 Q1	+ 2.7	+ 2.9	– 0.4 May	na	12.9 May	14.3
Sweden	+ 2.4	+ 2.3 Q1	+ 2.3	+ 2.8	– 1.4 Apr	+ 1.9 May	4.2 Jun*	5.1
Switzerland	+ 7.4	+ 2.5 Q1	+ 1.8	+ 2.1	+ 5.1 Q1*	– 0.7 May	1.6 Jun*	1.8
United States	+ 1.2	+ 2.5 Q1	+ 1.6	+ 2.9	– 3.6 Jun	+ 2.5 Apr	4.5 Jun	4.0
Euro area	+ 2.0	+ 2.6 Q1	+ 1.9	+ 2.4	– 0.1 May	+ 1.5 Apr	8.3 May	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 0.4	+ 3.4 Q1	na	na	– 2.3 May	+ 6.9 Mar	9.3 Jun*	10.3
Greece	na	+ 2.52000	na	na	– 0.8 Mar*	+ 5.1 Mar	na	na
Iceland	na	+ 3.62000	na	na	+ 2.5 2000	na	1.5 Apr	1.5
Ireland	na	+12.1 Q4	na	na	+14.9 May*	+ 1.5 Apr	3.7 Jun	4.1
Luxembourg	na	+ 8.52000	na	na	– 1.6 Apr*†	+ 6.7 Mar	2.4 May	2.7
New Zealand	+ 0.9	+ 0.4 Q1	na	na	+ 0.9 Q1*	+ 1.7 Q1	5.4 Q1	6.4
Norway	+ 0.9	+ 0.3 Q1	na	na	– 5.9 May*	– 1.8 May	3.7 Q1	3.9
Portugal	+ 2.2	+ 3.4 Q4	na	na	+ 3.4 May*	+ 6.4 Apr	4.2 Q1	4.4

*Not seasonally adjusted. †New series. ‡Mar-May; claimant count rate 3.2% in Jun. §Apr-Jun

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Prices and wages

Jul 26th 2001
From The Economist print edition

% change at annual rate

	Consumer prices*			The Economist poll consumer prices forecast		Producer prices*			Wages/earnings		
	1 year		year ago	2001	2002	1 year		year ago	1 year		year ago
Australia	+ 6.0	Q2	+ 3.2	+ 4.0	+ 2.4	+ 5.6	Q2	+ 7.4	+ 5.6	Q1	+ 2.9
Austria	+ 2.8	Jun	+ 2.7	+ 2.3	+ 1.7	+ 2.9	Jun	+ 3.8	+ 2.7	Jun	+ 2.0
Belgium	+ 2.9	Jun	+ 2.8	+ 2.4	+ 1.9	+ 5.3	May	+ 8.6	+ 2.6	Q2	+ 2.2
Britain	+ 1.9	Jun	+ 3.3	+ 2.1	+ 2.4	+ 0.4	Jun	+ 2.8	+ 4.5	May	+ 4.6
Canada	+ 3.3	Jun	+ 2.9	+ 2.8	+ 2.1	+ 2.7	May	+ 5.9	+ 0.9	Apr	+ 3.1
Denmark	+ 2.3	Jun	+ 3.3	+ 2.4	+ 2.2	+ 3.2	Jun	+ 6.6	+ 3.8	Q1	+ 3.6
France	+ 2.1	Jun	+ 1.7	+ 1.8	+ 1.5	+ 2.8	May	+ 5.8	+ 4.3	Q1	+ 5.2
Germany	+ 2.7	Jul	+ 1.9	+ 2.7	+ 1.7	+ 3.1	Jun	+ 5.4	+ 1.4	Apr*	+ 2.3
Italy	+ 3.0	Jun	+ 2.7	+ 2.7	+ 2.1	+ 2.9	May	+ 6.4	+ 2.7	May*	+ 2.3
Japan	− 0.5	May	− 0.7	− 0.4	− 0.3	+ 0.8	Jun	− 0.6	nil	May	+ 2.1
Netherlands	+ 4.5	Jun	+ 2.7	+ 4.6	+ 2.7	+ 4.4	May	+ 8.2	+ 3.9	May	+ 3.3
Spain	+ 4.2	Jun	+ 3.4	+ 3.7	+ 2.8	+ 2.7	May	+ 5.8	+ 2.2	Q4	+ 2.4
Sweden	+ 2.9	Jun	+ 1.2	+ 2.2	+ 1.8	+ 2.6	May	+ 3.7	+ 1.8	Apr*	+ 4.1
Switzerland	+ 1.6	Jun	+ 1.8	+ 1.3	+ 1.3	+ 0.4	Jun	+ 2.9	+ 1.3	2000	+ 0.3
United States	+ 3.2	Jun	+ 3.7	+ 3.2	+ 2.3	+ 2.5	Jun	+ 4.4	+ 4.2	Jun	+ 3.7
Euro area	+ 3.0	Jun	+ 2.4	+ 2.7	+ 1.9	+ 3.6	May	+ 5.3	+ 2.6	Q1	+ 2.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 3.0	Jun	+ 3.5	na	na	+ 2.4	Jun	+ 8.6	+ 5.0	Q1*	+ 3.5
Greece	+ 3.9	Jun	+ 2.5	na	na	+ 5.1	Apr	+ 7.0	na		na
Iceland	+ 7.0	Jul	+ 5.6	na	na	+ 6.7	Jul	+ 3.6	+ 8.2	Jun	+ 7.6
Ireland	+ 5.3	Jun	+ 5.5	na	na	+ 3.0	Jun	+ 5.5	+ 6.4	Q4*	+ 7.3
Luxembourg	+ 2.9	Jun	+ 3.3	na	na	+ 1.1	May	+ 5.5	+ 7.7	Apr*	− 1.0
New Zealand	+ 3.2	Q2	+ 2.0	na	na	+ 7.8	Q1	+ 4.9	+ 1.8	Q1	+ 1.4
Norway	+ 3.8	Jun	+ 3.3	na	na	+ 3.5	Jun	+ 8.3	+ 4.4	Q1*	+ 4.1
Portugal	+ 4.5	Jun	+ 2.9	na	na	+ 5.6	May	+14.9	+ 2.4	Apr*	na

*Not seasonally adjusted.

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Part-time workers

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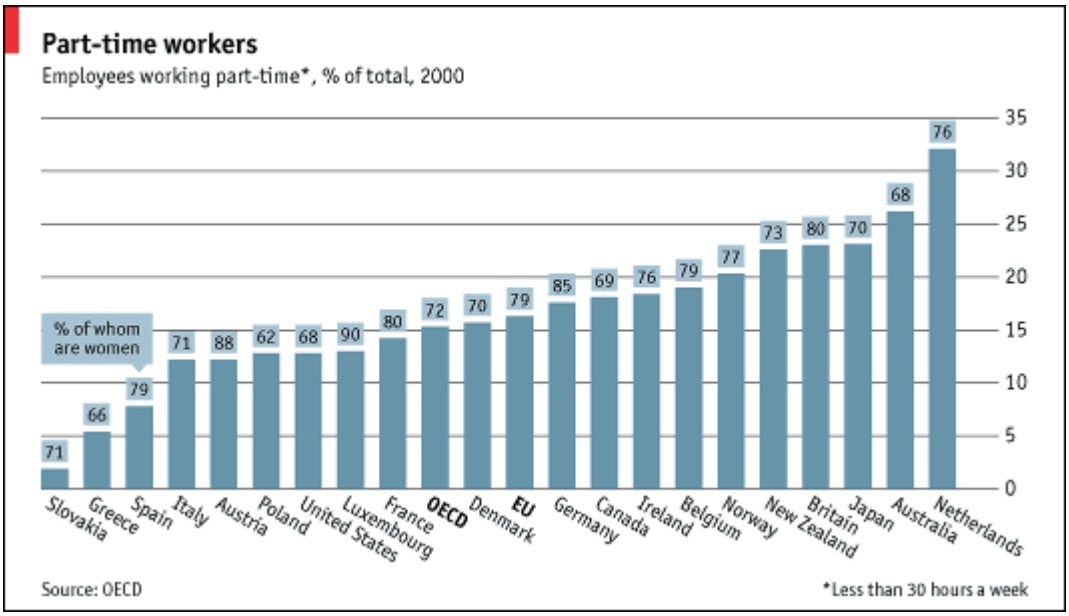
From The Economist print edition

Roughly one in six workers in developed countries is a part-timer. In the past few years the incidence of part-time work has risen sharply in some European countries, notably the Netherlands and Belgium, but has fallen in the United States. Women dominate the part-time workforce but in some countries, such as Britain, the share of men has been rising, from 15% in 1990 to 20% in 2000.



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Money and interest rates

Jul 26th 2001
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jul 25th 2001)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+13.1	+ 6.9	May	5.04	6.19	5.46	6.04	6.15	7.60
Britain	+ 6.8	+ 7.5	Jun	5.19	6.13	5.26	5.06	5.12	6.44
Canada	+10.5	+ 6.6	Jun	4.09	5.63	4.71	5.75	5.88	7.23
Denmark	+ 1.2	- 6.9	May	4.82	5.67	4.67	5.18	5.58	7.12
Japan	+ 8.1	+ 3.2	Jun	0.01	0.12	0.05	1.38	1.69	1.52
Sweden	+ 7.2	+ 5.0	Jun	4.29	3.99	4.71	5.30	5.21	5.57
Switzerland	nil	+ 3.6	Jun	3.20	3.42	2.94	3.38	3.82	4.15
United States	+ 1.6	+11.3	Jun	3.54	6.65	3.97	5.17	6.45	6.87
Euro area†	+ 3.5	+ 5.4	May	4.47	4.83	4.20	4.90	5.09	5.57

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 5.52%, Japan No.233 1.39%. Central bank rates: US fed funds 3.75%, ECB refinancing 4.50%, BOJ overnight call 0.01%, BOE repo 5.25%.
Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, Warburg Dillon Read, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jul 26th 2001
From The Economist print edition

1995=100

	Jul 17th	Jul 24th*	% change on one month	% change on one year
Dollar index				
All items	70.4	69.4	+ 1.8	- 4.0
Food	71.3	70.6	+ 6.0	+ 0.9
Industrials				
All	69.1	67.8	- 3.6	-10.3
Nfa†	68.4	66.9	- 3.4	- 2.4
Metals	69.8	68.6	- 3.8	-15.8
Sterling index				
All items	79.3	77.1	+ 1.5	+ 2.6
Euro index				
All items	108.7	104.4	+ 0.3	+ 3.3
Yen index				
All items	93.7	91.6	+ 2.0	+ 9.0
Gold				
$ per oz	267.95	268.75	- 2.1	- 3.9
West Texas Intermediate				
$ per barrel	25.28	26.11	- 2.2	- 6.1

* Provisional. † Non-food agriculturals.

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Stockmarkets

Jul 26th 2001
From The Economist print edition

Market indices

	Jul 25th	2001 high	2001 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,265.1	3,425.2	3,094.3	- 2.2	- 4.7	+ 3.5	- 5.4
Austria (ATX)	1,237.0	1,245.8	1,052.2	+ 1.7	-28.8	+15.2	+ 7.9
Belgium (Bel 20)	2,916.3	3,030.4	2,591.6	- 1.1	-20.8	- 3.6	- 9.7
Britain (FTSE 100)	5,275.7	6,334.5	5,275.7	- 2.4	-23.9	-15.2	-19.0
Canada (Toronto Composite)	7,623.8	9,348.4	7,415.5	+ 0.0	-33.1	-14.7	-16.6
Denmark (KBX)	251.3**	294.3	234.7	- 1.3	-16.7	- 5.1	-10.9
France (SBF 250)	3,084.7	3,820.2	3,084.7	- 1.9	-29.7	-18.2	-23.4
(CAC 40)	4,773.2	5,998.5	4,773.2	- 1.9	-31.0	-19.5	-24.6
Germany (Xetra DAX)	5,582.8	6,795.1	5,388.0	- 2.5	-30.8	-13.2	-18.8
Italy (BCI)	1,566.3	1,948.4	1,555.8	+ 0.7	-28.2	-18.3	-23.5
Japan (Nikkei 225)	11,891.6	14,529.4	11,609.6	- 0.0	-69.4	-13.7	-20.3
(Topix)	1,189.1	1,441.0	1,162.0	- 0.9	-58.8	- 7.4	-14.4
Netherlands (AEX)	526.6	642.3	518.3	- 2.4	-24.9	-17.4	-22.7
Spain (Madrid SE)	798.7	963.9	798.6	- 0.7	-30.3	- 9.3	-15.1
Sweden (Affarsvarlden Gen)	217.7	293.1	217.2	- 1.8	-45.6	-21.6	-30.4
Switzerland (Swiss Market)	6,667.3	8,135.4	6,574.0	- 2.8	-20.7	-18.0	-22.5
United States (DJIA)	10,405.7	11,337.9	9,389.5	- 1.6	-11.2	- 3.5	- 3.5
(S&P 500)	1,190.5	1,373.7	1,103.3	- 1.4	-22.1	- 9.8	- 9.8
(Nasdaq Comp)	1,984.3	2,859.2	1,638.8	- 1.6	-60.7	-19.7	-19.7
Europe (FTSE Eurotop 300)*	1,281.7	1,545.5	1,279.0	- 2.0	-24.8	-16.4	-21.8
Euro area (FTSE Ebloc 100)*	1,139.8	1,404.1	1,139.1	- 1.4	-26.5	-18.1	-23.4
World (MSCI)†	1,046.5	1,249.2	1,014.6	- 1.2	-27.8	na	-14.3
World bond market (Salomon)‡	434.1	447.8	420.6	+ 0.6	- 5.6	na	- 2.2

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms. **New index.

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Trade, exchange rates and budgets

Jul 26th 2001
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2001	2002	Exchange rate trade-weighted† Jul 25th	year ago	Currency units per $ Jul 25th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2001‡
Australia	– 1.4	May	– 12.9	Q1	– 3.0	– 3.0	71.6	77.6	1.97	1.69	2.81	1.72	1.59	0.1
Austria	– 5.6	Apr	– 4.7	May	– 2.2	– 2.0	100.1	100.2	15.7	14.6	22.3	13.6	12.7	-0.6
Belgium	+ 12.1	May	+ 11.2	Mar	+ 4.2	+ 4.5	98.7	99.0	45.9	42.8	65.5	40.0	37.1	0.7
Britain	– 44.0	May	– 19.2	Q1	– 2.1	– 2.4	106.5	106.1	0.70	0.66	–	0.61	0.57	1.2
Canada	+ 48.2	May	+ 22.2	Q1	+ 3.3	+ 2.6	78.4	80.9	1.54	1.47	2.19	1.34	1.24	2.6
Denmark	+ 6.7	May	+ 4.3	May	+ 1.6	+ 1.7	102.0	101.0	8.47	7.91	12.1	7.38	6.85	2.9
France	– 0.2	May	+ 14.0	May	+ 1.7	+ 1.8	101.3	101.7	7.46	6.96	10.7	6.50	6.04	-0.5
Germany	+ 57.4	May	– 17.4	May	– 0.8	– 0.6	98.2	98.5	2.23	2.08	3.18	1.94	1.80	-1.7
Italy	+ 3.3	May	– 6.1	Apr	– 0.3	– 0.1	72.3	72.6	2,203	2,055	3,145	1,919	1,782	-1.3
Japan	+ 95.6	May	+102.3	May	+ 2.2	+ 2.0	137.3	150.2	124	109	176	108	–	-6.3
Netherlands	+ 17.3	Apr	+ 16.0	Q1	+ 4.1	+ 4.0	97.6	97.8	2.51	2.34	3.58	2.18	2.03	1.3
Spain	– 38.2	May	– 15.9	Apr	– 2.8	– 2.7	74.0	74.2	189	177	270	165	153	nil
Sweden	+ 12.9	May	+ 5.7	May	+ 2.1	+ 2.3	74.6	83.5	10.62	8.93	15.2	9.25	8.59	3.6
Switzerland	+ 0.1	Jun	+ 28.3	Q1	+11.5	+11.5	109.1	106.1	1.71	1.65	2.45	1.49	1.39	na
United States	–455.5	May	–449.3	Q1	– 4.1	– 3.9	119.7	110.4	–	–	1.43	0.87	0.81	2.1
Euro area	– 6.8	Apr	– 30.0	Apr	– 0.3	– 0.1	78.0	79.8	1.14	1.06	1.62	–	0.92	-0.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 14.0	May	+ 8.9	May	na	na	78.1	77.2	6.91	6.31	9.86	6.02	5.59	5.3
Greece	– 7.5	Jan	– 7.7	Jan	na	na	57.3	58.0	396	358	566	345	321	nil
Iceland	– 0.4	May	– 0.9	Q4	na	na	na	na	103	78.1	147	89.7	83.3	2.4
Ireland	+ 27.9	Apr	– 1.3	Q1	na	na	86.8	87.5	0.92	0.84	1.31	0.80	0.74	4.5
Luxembourg	– 2.4	Apr	+ 1.2	Q1	na	na	98.7	99.0	46.9	42.8	67.0	40.9	37.9	3.6
New Zealand	– 0.1	May	– 2.3	Q1	na	na	79.3	81.5	2.41	2.17	3.44	2.10	1.95	1.0
Norway	+ 27.8	Jun	+ 25.6	Apr	na	na	95.4	92.2	9.19	8.70	13.1	8.01	7.43	15.3
Portugal	– 13.9	Apr	– 9.9	Apr	na	na	89.1	89.2	233	213	333	203	189	-1.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

Text refers only to the first 16 countries listed

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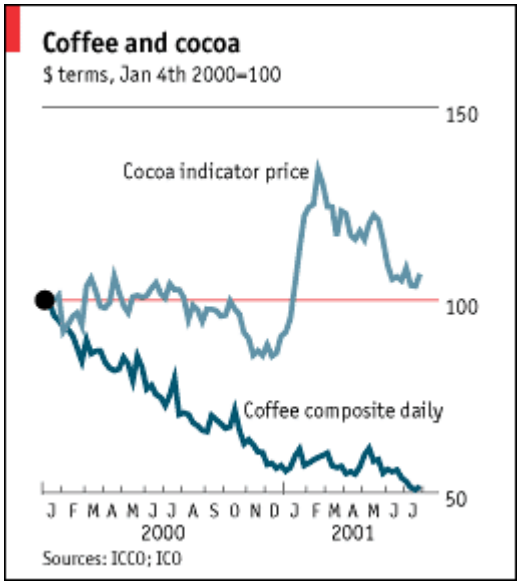
Coffee and cocoa

Jul 26th 2001
From The Economist print edition

The prices of two of the world's favourite hot drinks have been depressed because of bumper crops and new producers. Coffee prices have reached 30-year lows as Vietnam has stepped up its production. The price of cocoa fell to 28-year lows last year before recovering slightly. Prices are expected to decline further as abundant harvests add to stocks.



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Overview

Jul 26th 2001
From The Economist print edition

The **Indonesian** rupiah rose by over 10% against the dollar on hopes that Megawati Sukarnoputri, the new president, would pursue a more consistent economic policy than her ousted predecessor, Abdurrahman Wahid. But the stockmarket did less well, shedding 1.3% on investors' worries about who would become the new vice-president.

There were further signs that the industrial downturn in America and Europe is affecting the rest of the world. In **Taiwan**, industrial production fell by 11.3% in the year to June. The slump is set to continue: exports in the first three weeks of July fell by 21.5% over the same period last year. Manufacturing output also declined in **Poland**, falling by a higher-than-expected 4.8% in the year to June.

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Currencies against the dollar

Jul 26th 2001
From The Economist print edition

Almost all currencies have fallen against the almighty dollar this year. Of the emerging markets that are regularly monitored by *The Economist* only Mexico and Hungary have bucked the trend. Most other currencies in Eastern Europe, Latin America and Asia have declined quite sharply. Beset by economic crisis, the Turkish lira has fared the worst.

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Economy

Jul 26th 2001
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.8	Q2	+10.1	Jun	+ 1.4	Jun	+19.9	Jun	+20.5	2000	180.2	Apr
Hong Kong	+ 2.5	Q1	– 0.1	Q1	– 1.1	Jun	–11.9	May	+ 8.8	Q1	114.1	Jun
India	+ 5.7	Q3	+ 1.9	May	+ 2.5	May	– 5.4	May	– 2.3	Q1	40.1	May
Indonesia	+ 4.0	Q1	+ 4.5	Q4	+12.1	Jun	+25.7	May	+ 5.5	Q3	22.1	Apr
Malaysia	+ 3.2	Q1	– 3.7	May	+ 1.5	Jun	+15.7	May	+ 8.4	Q4	25.6	May
Philippines	+ 2.5	Q1	+12.7	Apr	+ 6.7	Jun	+ 6.1	May	+ 8.5	Apr	12.5	Apr
Singapore	– 0.8	Q2	–10.9	May	+ 1.2	Jun	+ 7.7	Jun	+21.8	Q1	76.7	Apr
South Korea	+ 3.7	Q1	+ 2.3	May	+ 5.2	Jun	+14.3	Jun	+14.6	May	94.3	Jun
Taiwan	+ 1.1	Q1	–11.3	Jun	– 0.2	Jun	+12.2	Jun	+12.0	Q1	109.1	Jun
Thailand	+ 1.8	Q1	+ 1.6	May	+ 2.3	Jun	+ 2.8	May	+ 6.6	May	31.0	Jun
Argentina	– 2.1	Q1	– 2.9	Jun	– 0.3	Jun	+ 1.7	May	– 9.0	Q1	20.2	May
Brazil	+ 4.1	Q1	+ 4.2	May	+ 8.1	Jun	– 1.6	Jun	–27.1	May	35.5	May
Chile	+ 3.3	Q1	+ 3.2	May	+ 3.6	Jun	+ 1.7	Jun	– 1.4	Q1	14.4	May
Colombia	+ 1.7	Q1	+ 2.2	May	+ 7.9	Jun	+ 1.6	Apr	– 0.7	Q1	9.3	Jun
Mexico	+ 1.9	Q1	– 3.4	May	+ 6.6	Jun	– 9.5	Jun	–17.8	Q1	40.6	May
Peru	– 0.4	May	+ 1.3	May	+ 2.5	Jun	– 0.3	May	– 1.7	Q1	8.3	May
Venezuela	+ 3.5	Q1	na		+12.5	Jun	+17.2	Dec	+12.5	Q1	10.9	May
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.2	May	–10.4	Q4	– 0.8	Q4	12.9	Mar
Israel	+ 1.8	Q1	+ 0.3	Apr	+ 0.7	Jun	– 7.4	Jun	– 1.4	Q4	23.2	May
South Africa	+ 2.7	Q1	+ 1.7	May	+ 6.3	Jun	+ 3.8	May	+ 0.1	Q1	6.1	May
Turkey	– 1.9	Q1	– 9.7	May	+56.1	Jun	–24.6	Apr	– 6.6	Apr	19.9	May
Czech Republic	+ 3.8	Q1	+ 6.9	May	+ 5.5	Jun	– 3.4	Jun	– 2.7	Q1	12.7	Jun
Hungary	+ 4.4	Q1	+ 8.4	May	+10.5	Jun	– 2.4	May	– 1.8	May	11.5	Jun
Poland	+ 2.3	Q1	– 4.8	Jun	+ 6.2	Jun	–10.2	May	– 9.0	May	26.2	Jun
Russia	+ 4.9	Q1	+ 3.7	Jun	+23.7	Jun	+59.7	May	+45.9	Q1	29.8	May
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 5.6	2000†	–12.9	Dec	+ 3.9	Apr	– 1.7	May	– 1.4	1999	1.2	Apr
Saudi Arabia	– 0.8	1999	na		+ 0.1	Apr	+50.9	2000	+15.6	2000	16.7	Apr

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; EIU; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; Russian Economic Trends.

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Financial markets

Jul 26th 2001
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jul 25th		Dec 31st 2000	
	Jul 25th	year ago	Jul 25th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.8	na	2,207.5	-1.3	+0.7	+0.7
Hong Kong	7.80	7.80	11.1	3.64	12,214.1*	-1.7	-19.1	-19.1
India	47.1	44.9	67.2	7.04	3,302.0	-2.4	-16.9	-17.6
Indonesia	10,050	9,095	14,347	17.30	447.6	-1.3	+7.5	+3.5
Malaysia	3.80	3.80	5.42	3.30	643.8	-0.6	-5.3	-5.3
Philippines	53.5	45.1	76.4	10.20	1,366.0	-2.0	-8.6	-14.6
Singapore	1.82	1.74	2.59	2.44	1,632.5	+0.3	-15.3	-19.1
South Korea	1,305	1,115	1,863	5.14	526.1	-2.7	+4.3	+1.1
Taiwan	34.8	31.0	49.6	3.90	4,136.4	-2.0	-12.8	-17.0
Thailand	45.7	41.2	65.3	3.25	308.1	-2.2	+14.5	+8.6
Argentina	1.00	1.00	1.43	13.59	330.3	+1.5	-20.8	-20.9
Brazil	2.49	1.79	3.55	18.99	13,955.9	+1.2	-10.5	-29.9
Chile	663	554	947	3.71**	5,431.5	+1.5	+11.6	-3.5
Colombia	2,304	2,171	3,289	12.64	987.7	-2.2	na	na
Mexico	9.16	9.36	13.1	9.40	6,411.5	+0.4	+13.4	+19.0
Peru	3.50	3.47	5.0	8.59	1,304.1	-0.8	+7.9	+8.9
Venezuela	724	688	1,034	13.10	7,585.6	+1.1	+11.7	+7.9
Egypt	3.95	3.48	5.64	9.02	5,611.6	-0.3	-26.8	-27.8
Israel	4.19	4.09	5.98	4.68	429.0	+1.8	-13.3	-16.3
South Africa	8.20	6.95	11.7	9.68	8,508.2	-2.3	+2.2	-5.7
Turkey	1,325,000	629,825	1,891,570	66.00	9,535.2	+4.7	+1.0	-48.9
Czech Republic	38.5	37.8	55.0	5.31	381.8	-0.1	-20.2	-22.0
Hungary	281	276	401	11.06	6,491.1	-1.3	-17.3	-16.9
Poland	4.20	4.29	6.00	15.65	12,798.1	-4.9	-28.3	-29.4
Russia	29.2	27.7	41.7	25.00	198.3†	+1.5	+41.3	+38.4
EMF (MSCI)‡	1.00	1.00	1.43	na	295.7	-0.6	na	-11.4
EMBI+§	1.00	1.00	1.43	na	203.5	+2.5	na	+0.8

* July 24th **Inflation adj. †In $ terms. ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; EIU; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; Russian Economic Trends.

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